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ORDINARY WAGE DISPUTES

GM Korea, Ssangyong Motor
to Expand Ordinary Wage Scope

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Is Korea's Smartphone Industry
Losing Growth Momentum?

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**What Should be the Focus of National Reform?**

The balance of power in Northeast Asia and the diplomatic interests of the surrounding powers are drawing increasing attention in the wake of Chinese President Xi Jinping's recent state visit to South Korea.

Around 70 years after Japan was defeated in the regional war, China came to be the world's second-largest economy and Korea's number one trade partner. Japan also transformed itself from a conquered nation to an economic powerhouse and a close ally of the United States. In addition, Washington is condoning its conversion into a military power these days, so as to contain China and maintain its influence in Asia.

The competition for hegemony in this region surrounding the Korean Peninsula is not much different from a century earlier.

The only big difference is the division of the Korean Peninsula, making the interests of the surrounding powers more complex than a century ago. In particular, North Korea's reliance on nuclear weapons is breaking the traditional balance of power, and its moves have raised concerns over a domino of nuclear developments in Northeast Asia. In that sense, the U.S. and China share the same interest of nuclear deterrence in the region, making it possible for President Xi to visit to Seoul along with mutual interests in economic issues.

The current regional situations, including Tokyo's lifting of sanctions on Pyongyang and Washington's recognition of Japan's right to collective self-defense, along with the uncomfortable yet interdependent Sino-American relations, are posing challenges and opportunities at the same time on the political, military, and economic environments of the Korean Peninsula.

North Korea aside, South Korea is, however, just as severely divided from within as it was 100 years ago. The nation has failed to handle the internal splits between conservative and progressive factions along with the conflicts between regions, social classes, and ideologies about North Korea. Under the circumstances, the refurbished national consensus or integration based on the democratic value and procedure is more basically and urgently needed to tide over the external challenges than the enhancement of diplomatic capabilities, which cannot but have their own limitations.

Regarding the discussions about national reform that have been heated since the Sewol ferry disaster, government reorganization and legal overhauls are not enough to give a whole new shape to Korea. The nation has risen to be the world's 10th largest economy from the ashes of the Korean War within a very short span of 50 years. Unfortunately though, compressed economic growth has resulted in entailing conflicts between social strata and corruption.

In order to deal with the challenges from home and abroad, the national consciousness has to be totally reformed and advanced first before it can come up with the nation's growth economy and improve its international status. That is how Korea will be able to transform itself anew genuinely -- through cleaning up accumulated internal evils and pulling through the external challenges ahead.

Park Jung-hwan,
 Publisher & Editor-in-Chief

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Ordinary Wage Disputes

Measures of GM Korea, Ssangyong Motor to Expand Scope of Ordinary Wages to Have Great Repercussions

Renault Samsung Motors' labor union went on partial strike in the afternoon of July 14. The union held a strike ceremony and stopped the day and night production line for two hours starting from 2:45pm.

The labor union and management of Renault Samsung Motors failed to reach an agreement on wage negotiations by July 11. The union claimed, "The company is unilaterally enforcing rotations and outsourcing," whereas the company insisted, "Only the parts inevitably necessary were outsourced, and there was no compulsory rotations." Two parties were also in conflicts regarding raising the 119,700 won (US\$115.55) base salary, and 200 percent of incentives.

The labor union of GM Korea already decided to go on strike on July 9, agreed to by 69 percent of members. The union demanded a 159,614 won (US\$154.08) raise in base salary and 500 percent of ordinary wage incentives. The company is opposing to this by saying, "Productivity should grow first."

Conflicts between labor and management in the automobile industry are becoming a very important issue this summer. The labor unions and management of each company are in direct conflict due to low productivity, expanded ordinary wages, and low profitability caused by the Korean won appreciation. Expanding the range of ordinary wages, especially, is a key issue. The ordinary wage means money paid to employees regularly just like a salary and hourly wage, which is the standard for pensions or other benefits. At the end of last year, the Supreme Court decided to "include regular and fixed payments to ordinary wages," and this became the most con-



Renault Samsung Motors' labor union members shout slogans outside of the south gate of the company's Busan plant on September 12, 2012.

troversial issue for labor-management negotiations this year.

The labor union of Hyundai Motors also claims, "Bonus payments and other employee benefits should be included in ordinary wages." But the company counterclaims, "Those are not included since those are not paid regularly."

The management of Renault Samsung Motors and GM Korea said, "If production is suspended due to strikes, it will be harder to supply sufficient cars." These two companies are the main production bases for Renault in France and GM in the U.S., and they are worried if their mother companies are not satisfied with their production performances, saying "Productivity is relatively lower than other countries." The number of jobs and wages will inevitably decline if production declines.

In fact, domestic sales of those two companies are increasing, while production is decreasing. The domestic sales of Renault Samsung Motors increased 40 percent for the first half of this year compared to last year. But production during the same period decreased by

2.3 percent. 'QM3' manufactures in the Renault's Spain factory were actually the main sales driver in Korea. Ahn Jaechang, chief of external cooperation at Renault Samsung's labor union, said, "The company should survive at first for employees to lead a life. The management should be more proactive in negotiations with the labor union."

The situation is similar in GM Korea. Sales during the first half this year (about 72,000 vehicles) recorded the highest since it entered the Korean market in 2004, but production decreased 18 percent compared to the previous year. As Chevrolet exited Europe at the end of last year, export volumes decreased. Production decreased accordingly. GM Korea experienced a major production delay of more than 30,000 vehicles due to the strike last year.

Amid a growing conflict between unions and management in the auto industry over ordinary wages, GM Korea and Ssangyong Motor proposed some ways to include regular bonuses in the ordinary wage calculation. Con-

sequently, the ordinary wage expansion is widespread in the overall automobile industry in Korea.

Labor and management of GM Korea was originally scheduled to discuss issues including a measure to expand the scope of ordinary wages in the 19th pay negotiation scheduled to be held on July 22, but has not yet been held. Since the company's summer vacation starts on August 4, labor-management negotiations are expected to mark a watershed in the ongoing ordinary wage disputes.

Previously, the management suggested that it will include a fixed bonus in the scope of ordinary wages as of August 1. The labor union initially welcomed the suggestion, but demanded that the Supreme Court ruling that includes regular bonuses in the definition of ordinary wages issued on December 18 of last year be applied retroactively, starting on January 1, 2014. Like the labor union in the metal industry, workers are calling for a pay raise of 159,614 won (US\$155.51). They are also demanding that performance-based bonuses be raised as much as 500 percent of ordinary wages.

In the meantime, Ssangyong Motor also proposed to its labor union to include bonuses as ordinary wages on July 23.

According to Ssangyong Motor's announcement at the 15th wage and labor collective negotiations held on July 22, regular bonuses, currently 800 percent, shall be included in the legal definition of ordinary wages. Whether additional compensation including employee welfare expenses shall be included as well is to be decided after the court's decision. As ordinary wages are the criteria to calculate overtime, nighttime, and holiday allowances, these additional allowances will rise with the increase of ordinary wages. This leads to big raises in salary, which is therefore very positive for employees. However, this is a very big burden to the company at the same time. An official at Ssangyong Motor explained, "As the Supreme Court unanimously decided to include the bonus in ordinary wages, the



The Supreme Court ruled on December 18 2013 that the regular bonus is included in the ordinary wage, which is expected to have great repercussions in the auto industry.

company has already prepared separate allowances in case of potential lawsuits. We wanted to conclude the negotiations with the labor union soonest and stabilize the management."

In fact, sales of Ssangyong Motor during the first half this year increased 10.4 percent to 73,941 vehicles relative to last year. Domestic sales increased 13.5 percent to 33,235 vehicles, and exports 8.0 percent to 40,706 vehicles. Industry experts analyze that Ssangyong Motor could not risk losing their hard-won "plus performances" due to the conflicts with the labor union.

Ssangyong Motor's labor union welcomed the management's proposal, but disagreed on when to start applying it. While the company proposed to start including the 800 percent bonus in ordinary wages upon settlement of negotiations, the labor union insists to retroactively apply it, backdated to the Supreme Court's decision. The labor union is also requesting to improve the labor conditions of reinstated union members as well as to withdraw damage indemnification and provisional attachments.

As the expansion of the definition of the ordinary wage has been realized in Ssangyong Motor, the automobile industry is now focusing on Hyundai-Kia Motors. The labor union of Hyundai Motors also aims to strongly push for ordinary wage expansion. An official at Hyundai-Kia Motors explained, "The bonus system of Hyundai Motors is totally different from that of Ssangyong Motor or GM Korea, in both characteris-

tics and means. We pay regular bonuses once every two months, but we do not when working days fall below 15 during this period. This cannot be considered as regular."

According to the industry estimation, if ordinary wages are recalculated backdated to past three years, 5 trillion won (US\$4.8 billion) of additional labor cost arises during the first year for Hyundai Motors. For an entire Hyundai Motors Group this will amount to 13.2 trillion won (US\$12.8 billion). For GM Korea, having already proposed its labor union to expand ordinary wages, the total labor costs will increase by 18 percent if various allowances such as regular bonuses and vacation bonuses are included in ordinary wages.

As two of the automobile manufacturers have finally agreed to expand ordinary wages, the competitive advantage of Korea as an automobile manufacturing base could be weakened. Except for Hyundai-Kia Motors, the remaining automobile manufacturing companies are not free from the pressures of foreign headquarters. If labor costs rise constantly in Korea, those companies could exit from Korea in the worst-case scenario. An automobile industry professional expressed regrets by saying, "For the past few years, automobile makers have had very hard times. Their performances became so much better this year in both domestic sales and exports. Ironically, this exposed their weaknesses while negotiating with labor unions." ⁶⁸

1st Priority of 2nd Cabinet

President Park Orders to “Revive Economy No Matter What”



President Park Geun-hye (third from right) and her newly appointed cabinet officials walk to the function hall after the appointment ceremony on July 18.

President Park Geun-hye emphasized, “The most urgent task is to boost the Korean economy and establish a foundation for an economic renaissance.”

President Park said at the first meeting on July 22 after the second cabinet formation, “We do not have sufficient time. We need to desperately realize that this is the last opportunity.”

As the second cabinet aims to overcome the aftermath of a human resources crisis and promote the “stabilization of public welfare” and an “economic renaissance” as the main national issues during the second half of this year, President Park stressed that all the government policies should be geared towards improving the economic sentiment index through a revival of the domestic economy.

President Park added, “A vessel is deserted when restoring forces are lost. If we lose this chance to restore the economy, we will move backwards to lose ten or twenty years. This shall not happen.”

President Park ordered to the second cabinet, “Actual performances that could meet the demands of the people must be in place through three-year economic innovation plans based on national reformation and economic revival.”

In addition, she requested, “Economic departments as a whole have to move organically to create jobs, stabilize the housing market, and ultimately restore the entire economy. Three-year economic innovation plans shall be promoted constantly as well.”

She selected the top priority agenda of the second cabinet as “economic revival.”

President Park emphasized, “All the possible government policies ranging from finance and economy shall be committed to revive the economy. The domestic economy shall be activated through the rise of household income based on employment.”

This means that selective concentration and maximized optimization, for example investing in the biggest job creating and most effective fields, are necessary in order to make people actually feel economic growth, not improve the simple index and numbers.

At this meeting, Kim Dong-yeon, Minister of the Office of Government Policy Coordination under the Prime Minister, introduced the newly designed “regulation information portal site” to warn that unreasonable deregulations will be strictly reformed. This portal site has been upgraded so that the general


public and proposers could monitor the regulation trends and progress through real-time disclosure of the regulatory reformation processes.

As part of the deregulation measures, eight ministries of the Korean government, including the Ministry of Land, Infrastructure & Transport and the Ministry of Oceans and Fisheries, kicked off a test of the regulation cost-in cost-out system, which is scheduled to be put in place as the center of its deregulation policy.

The Prime Minister’s Office announced on July 20 that it recently distributed the operation plan and manual to the ministries, and the result of the test operation will be made public in December.

The regulation cost-in cost-out system’s purpose is to maintain the total cost of regulation at a constant level by removing existing ones when adding new ones. It covers every administrative regulation across all fields of society, although the main target is deregulation in the corporate sector.

Between July and August, the system is applied to exemplary cases among those reviewed by the Regulatory Reform Committees, and the scope is going to be extended to all cases from September. Still, cases directly related to the safety of the general public, natural environments and social benefit enhancement are excluded from the application.

The finalized plans are available on the official websites of the ministries and the government’s regulation information portal from December. The Prime Minister’s Office collected opinions from the Korea Development Institute and the academic and business circles with regard to the establishment of the plan. 

Korea-Japan Joint Research

Koreans Consider Japan as Second Biggest Military Threat Next to North Korea

Koreans consider Japan as the second biggest military threat to South Korea, next to North Korea.

The East Asia Institute of Korea and a Japanese NGO “Press NPO” announced such a result from joint research on mutual perception, which was conducted from May to June last year, at the press conference in Seoul on July 10.

According to the result, 46.4 percent of Korean responders picked Japan when questioned as “a country or region that could be a military threat to my country” (2 multiple answers). Japan was the number two answer next to North Korea (83.4 percent), beating China (39.6 percent), which was number two last year. This shows that Koreans recognize the Japanese military threat more than the Chinese.

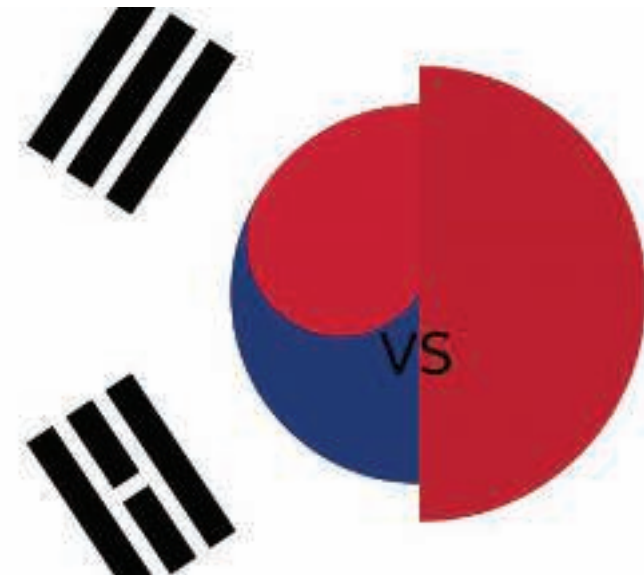
In the same survey last year, Koreans picked North Korea as number one (86.7 percent), followed by China (47.8 percent) and Japan (43.9 percent) as “countries with military threats.”

In the case of the Japanese, Korea ranked number four with 15.1 percent, after North Korea (72.5 percent), China (71.4 percent), and Russia (29.0 percent).

About the possibility of military conflicts between Korea and Japan, the majority of both Koreans (47.9 percent) and Japanese (57.0 percent) answered “will not happen.”

However, 34.1 percent of Koreans said that military conflicts are possible in distant future. Only 8.8 percent of the Japanese said so.

As the conflicts between the two countries regarding history and territory issues have intensified recently, the Japanese have started to become more



prejudiced against Korea.

Questioned with the image of the other country, 54.4 percent of Japanese said “not quite good” or “not good” about Korea. Negative responses increased 17.1 percent compared to the previous year.

When asked, 70.9 percent of Koreans also responded that they have negative perceptions of Japan as well, but this decreased a bit from last year.

The main reasons for the negative perceptions of Japan (2 multiple answers) for Koreans were “they do not repent of the history of colonization” (76.8 percent) and the “Dok-do problem” (71.6 percent).


Among the Japanese, “because they criticize Japanese for history problems” (73.9 percent) was the response from the majority, which increased 18.1 percent from the previous year.

Furthermore, 53.1 percent of Koreans understand the political and social

mechanism of Japan as “militarism,” and 44.8 percent of Japanese said of Korea “nationalism.”

But both countries feel that they need to improve the current relationship between Korea and Japan.

Fully 10.4 percentage points more Koreans responded that the current Korea-Japan relationship is “bad,” and so did 18.7 percentage points more of Japanese respondents. Both Koreans (46.4 percent) and Japanese (31.4 percent) answered that the current situation is “a problem and needs to be improved.”

This survey targeted 1,400 male and female Koreans who were over 19 years old and 1,000 Japanese over 18 years old from May to June this year through face-to-face interviews in Korea, and the visit-and-collect method in Japan. The confidence level is 95 percent, and error range is ± 3.1 percent. 

Changing Power Balance

Pyongyang, Washington, Tokyo Feeling Discomfort at President Xi Jinping's Visit to Seoul

Political conditions in Northeast Asia has been fluctuating again in relation with Chinese President Xi Jinping's state visit to Korea. The neighboring countries appear to be somewhat uncomfortable at closer relations between South Korea and China and are competing more fiercely for hegemony in the region.

It is North Korea that is the most sensitive to the state visit. Its relations with China have deteriorated since Pyongyang's nuclear test in 2006, since the inauguration of President Xi Jinping in particular. The North launched two Scud-series short-range ballistic missiles on June 29, three projectiles assumed to be multiple rockets with a range of 190 km on June 26, and two additional short-range projectiles toward the East Sea on the morning of July 2.

In addition, it made a special proposal for the relaxation of military tensions on June 30 as a part of its double strategy to break Sino-Korean cooperation. "China puts first stability in the Korean Peninsula, and thus it is unlikely to buttress South Korea in a unilateral way," said professor Lim Eul-chul at the Institute for Far Eastern Studies Kyungnam University, adding, "Pyongyang's recent diplomatic tactics are to take advantage of this aspect."

Japan, which has been in conflict with China over the Senkaku Islands, is unhappy with the current situation as well. Japan is likely to be further isolated if the Korean and Chinese leaders' warning is issued during the summit meeting against Japan's attempt to distort the Kono Statement and pursuit of the right of collective self-defense.

Then, Japan will cope with the pressure by means of a rightward shift. It is said that the recent amicable atmosphere between North Korea and Japan seen in the negotiations for the abductees is a sort of reaction to the enhancement of the Sino-Korean relations.

Washington, on its part, is putting pressure on both South Korea and China, while fostering its partnership with Japan and claiming that China should assume a bigger role in resolving the North Korean nuclear issue. It is in this context that the United States has clarified its support for Japan's pursuit of the right of collective self-defense. "The United States welcomes Japan's new policy regarding the right of collective self-defense," Defense Secretary Chuck Hagel stated on July 1 (local time), adding, "This will allow the Self-Defense Forces' participation in a wider variety of operations and add to the efficiency of the U.S.-Japan alliance."


This is contrary to Chinese Foreign Ministry spokesperson Hong Lei's comment on the previous day that Japan seems to be trying to veer from peaceful development. Beijing is also putting pressure on the South Korean government to choose between the U.S. and itself, strongly opposed to Seoul's import of missile defense systems from the United States.

Meanwhile, North Korea is trying to be closer to Japan and Russia in response to the summit talks between South Korea and China.



The Japanese government announced on July 3 that it will lift some of its own restrictions on the North as Pyongyang is taking a proactive stance with regards to the Japanese abduction issue. Specifically, it is going to allow North Koreans to enter Japanese territory, allow the heads of the General Association of Korean Residents in Japan to re-enter the territory, cancel its request for Japanese to not enter North Korea, ease its restrictions on remittance to the North, and permit shipping from the North for humanitarian purposes.

Pyongyang is mending its relations with Moscow at a rapid pace, too. Hwang Pyong-so, director of the General Political Bureau of the DPRK Army, had an interview with the Russian military band on July 2 in the North. "My leader Kim Jong-un hopes that our bilateral relations will be brought to another level," he said during the meeting, adding, "The military and people of my country will make every effort to that end."

It is said that his hospitality towards the Russian army officers and emphasis on the friendly bilateral relations are to hold China in check and reduce the North's dependence on China against President Xi Jinping's state visit to Seoul. 

Korea-China Summit

Korea, China Agree on Won-Yuan Direct Exchange Market Worth 13.5 Trillion Won

South Korean President Park Geun-hye and Chinese President Xi Jinping agreed to settle the Korea-China FTA negotiation within this year at the summit on July 3. Currently, two countries are playing tug of war regarding the open range and concession level of the FTA.

Both countries have been trying hard to reach an agreement soon, but this is the first time they agreed to settle the negotiation within this year.

As the two countries also agreed to create a 13.5 trillion won direct exchange market for yuan in Seoul, the era of a “new economic partnership between Korea and China” has begun. This is considered as an upgraded version of the “strategic cooperative relationship” agreed in June last year when President Park visited China.

The fact that President Xi made a solo visit to South Korea first before its so-called “blood ally” North Korea shows that a new horizon of Korea-China relationship has been created. Two countries enhanced the mutual understanding on various issues such as politics, diplomacy, security, economy, and trade during this summit.

There have been a total of 11 negotiations for a Korea-China FTA since May 2012, when the negotiations first started. The 12th negotiation will start this month, and it might be possible to reach a final settlement within this year.

Two leaders have reviewed the progress of negotiations very positively so far, as it could be the foundation for a more comprehensive FTA. They agreed to make the best efforts to settle FTA negotiations within this year.

In addition, they agreed to create a won-yuan direct exchange market in



South Korean President Park Geun-hye and Chinese President Xi Jinping the announce results of the summit meeting at the joint press conference in the afternoon of July 3. President Xi will stay in Korea for the night.

Seoul so that Korea could be prepared for globalization and appreciation of the yuan, and diversify the economic currency. From now on, it is possible to exchange won for yuan directly for trading purposes without exchanging to other currencies. With the two leaders present, the People's Bank of China and Bank of Korea signed an MOU to designate a Chinese bank located in Seoul as a clearing house for yuan, so that the settlement of yuan could be done in Korea on a daily basis instead of Hong Kong.

Under the Renminbi Qualified Foreign Institutional Investor (RQFII) agreement, 80 billion yuan (13.5 trillion won, US\$12.9 billion) has been assigned to Korea, so that yuan acquired after exports could be directly invested in Chinese bonds and securities which have relatively higher yields. The investment amount to China would be increased appropriately depending on the market conditions and demands of the yuan in the future.

A won-yuan direct exchange market will be established in Korea first, and the one in China will be considered later following the globalization level

of the won. Bond issuances of yuan in Korea and other global companies will be encouraged as well.

The two leaders reconfirmed both of their positions strongly against the nuclear weapons of North Korea by issuing a joint statement. They agreed to put their best efforts towards the denuclearization of the Korean peninsula by resuming the six party talks.

They reaffirmed the mutual understanding of the Korean peninsula confidence process, President Park's North Korea policy. Furthermore, President Park's Dresden Plan to establish public infrastructure for the co-prosperity of South and North Korea has been supported by the General Secretary Xi. Two leaders also agreed to have frequent visits of their representatives to each country for strong cooperation on politics and national securities, regular “high profile strategic meetings for diplomacy and security” between the Chief National Security Officer in the Blue House and the State Member of Diplomacy in China, and annual visits of the Ministers of Diplomacy from both countries. **BK**

3 Years of Korea-EU FTA

Two Consecutive Years of Trade Deficits amid Autos Moving Backwards



After the Free Trade Agreement (FTA) with the European Union (EU), Korea has recorded trade deficits for two consecutive years. Since June 2011, when the FTA came into effect, imports have outpaced exports. As tariffs on automobiles, one of the major imported goods, will be additionally downscaled beginning from July 1, the trade deficit amount might become greater.

According to the “Korea-EU FTA 3rd year Trade and Investment Trend” reported by the Ministry of Trade, Industry and Energy on June 29, exports to the EU increased 7.8 percent to US\$47.3 billion during the 3rd year of FTA (July 2013 - May 2014), relative to the same period of the previous year. Exports to the EU decreased 12.2 percent and 4.8 percent, during 1st and 2nd year of the FTA, respectively, but increased for the first time during the 3rd year. In particular, exports from small and medium-sized companies, which decreased for the first two years of the FTA, increased 14.1 percent during the 3rd year. This is a very positive signal.

However, imports increased even more. During the 3rd year, imports

from the EU increased 12.5 percent to US\$54.7 billion compared to the previous year. This created total trade deficits of US\$7.4 billion, which is US\$2.8 billion more than the 2nd year’s trade deficits of US\$4.6 billion.

The Ministry of Trade, Industry and Energy analyzes that demand from Europe has been shrinking due to the European financial crisis. As the employment rate of the entire EU reached 10.4 percent last April and consumer confidence is still below the base standard 0, demand is not reviving. The depreciation of the euro and appreciation of the won can also be a reason for the trade deficit. The won-euro exchange rate dropped 7.2 percent after the Korea-EU FTA. A source at the Ministry of Trade, Industry and Energy explained, “After the FTA, the trade conversion effect in which machinery was originally imported from Japan but now imported from Europe has appeared, and crude oil imports from the North Sea also increased due to Iran sanctions from the U.S.”

The trading industry points out that the trade deficit amount might become greater as additional tariff cuts on European automobiles starting from July

1. Cost effects of a 0 percent tariff on medium and large-sized cars, which is now 1.6 percent, will vary approximately from 600,000 won to 1,200,000 won (US\$593 to US\$1186) by type of car. The government subsidy on low carbon automobiles starting from next January will also support exports of European cars.

In addition, tariffs on 662 other ex-EU products including glasses, whiskey, and medical products will be lowered, and tariffs on vehicles lower than 1,500 cc, bearings, pure wool fabrics, pork belly, and mackerel will additionally be decreased.

The government analyzes that the FTA effects are gradually appearing in Korea as an increase in Korean exports to the EU outgrows other competing countries such as the U.S., China, Japan, and Taiwan. Looking at the existing EU import trend from July 2013 to March 2014, imports from Korea increased 4.9 percent compared to the previous year, surpassing Japan (-8.0 percent), China (-0.2 percent), and the U.S. (-1.7 percent). Due to the FTA effects, Korea is doing well in the EU market. 

Largest Investor

South Korea Becomes Biggest Investor in Vietnam, Beating Japan



Samsung Electronics' factory in Bac Ninh, Vietnam.

Vietnam is rising as a manufacturing hub for South Korean companies. While electric and electronic industries are leading investments in Vietnam, many textile and shoe companies are returning to Vietnam from China. As consumption increases with higher income levels, large distribution companies are also actively investing in Vietnam.

On June 19, Foreign Investment Administration in Ministry of Investment Planning of Vietnam announced that investment from South Korea during January-March period in 2014 reached US\$765.6 million, which accounts for 22.9 percent of the entire investment amount in Vietnam.

When it comes to new investment amounts and the number of investments, South Korea recorded 26 percent and 30 percent, respectively. This made South Korea the #1 investor in Vietnam out of a total of 32 countries. Traditional top investor Japan, with a cautious attitude towards new project investments, has become the #2 country, as the total investment amount was counted at US\$414 million.

As South Korean companies

increase the investments to Vietnam, South Korea is rapidly following Japan in terms of accumulated investment amount as well. The total accumulated investment amount of South Korea is now US\$30.4 billion, right behind the Japanese at US\$35.3 billion.

South Korean investment is particularly outstanding in the electric and electronic industries. According to KOTRA, 23 out of 76 new investment projects until this March are into electronic components and mobile phone accessories, which is 34 percent of the entire investment amount.

Especially, as Samsung and LG are increasing their investment in Vietnam, their subcontractors are also going to Vietnam. According to the Vietnam office of Samsung Electronics, 55 subcontractors of Samsung Electronics entered Vietnam as of March 2014, and their accumulated investment amount recorded US\$2 billion.

The whole Samsung group has a very keen interest in Vietnam. Samsung is looking for new business opportunities in Vietnam not only in electric and electronics, but also in construction and shipbuilding. The Vietnamese govern-

ment wants to invite Samsung, who already invested US\$5.7 billion, into many of big projects such as the Vung Ang 3 thermoelectric power plant, Long Thanh airport in the west, and Khanh Hoa shipyard.


LG Electronics will also build a new factory in Haiphong with US\$300 million by 2020. In this factory, LG will manufacture air conditioners, refrigerators, and washing machines targeting the Vietnamese domestic market.

It is very remarkable that Korean traditional industries, including textiles or shoemaking, as well as distribution businesses also enter Vietnam. The textile and shoe industries account for 11.48 percent of the total Korean investment in Vietnam, whereas material production (paper, plastics, cardboard, thermoplastic film) does 11.01 percent.

This phenomenon is closely related to the recent trend that the above companies move their factories from China to Vietnam, as labor expenses are relatively cheaper in Vietnam. Kim Kohyun, a regional manager at the Korea International Trade Association (KITA) Ho Chi Minh, mentioned that the minimum wage in China has been doubled in the past 3 years, and that more and more companies move their factories to Vietnam where labor expenses are cheap.

The fact that Vietnam has enough human resources who are economically active invites more South Korean companies. The population of 15 to 64 year-olds with high productivity will reach 70.8 percent by 2015 from 70.0 percent of 2010.

Many large distribution companies have started to invest in Vietnam directly. Lotte Mart is operating 7 stores in Vietnam, and Shinsegae International has a plan to invest US\$65 million to open stores in Ho Chi Minh.

The population of 15-24 year-olds in Vietnam, which will be the main consumer segment in the future, is 20.1 percent, and this outnumbers India (19.0 percent), China (17.8 percent), and other emerging countries. Vietnam's consumption market will be getting bigger and bigger. 

Strengthening Social Safety Net

Korean Version of Riester and NEST Pension to Be Introduced

In order to encourage more people to join pensions, the Korean versions of Riester Pension and National Employment Savings Trust (NEST) Pension in which the government subsidies are provided to cover part of an insurance premium will be introduced. Lowering the tax on the private pension income of middle and low-income people is also being considered. Furthermore, a policy to oblige all employees to have a retirement pension in the medium and long terms is being discussed inside the government.

According to the authorities on July 17, a comprehensive blueprint for restructuring private pension systems will be announced by September or October of this year.

An authority official said, "The Ministry of Employment and Labor, Financial Services Commission, and Ministry of Health and Welfare, led by the Ministry of Strategy and Finance, will present a strategy to increase private pension holders to guarantee household income after retirement around the regular session of the National Assembly. Benchmarking the Riester Pension of Germany and NEST Pension of England is considered."

The Riester Pension provides a government subsidy for part of an insurance premium when a low income citizen signs a private pension. This practice has been adapted by Germany since 2002. A NEST Pension provides a 20 percent government subsidy when a small company employee joins a pension, and ultimately encourages more people to hold pensions.

The specific targets, budget, and schedules of the Korean versions of the Riester and NEST Pension have not yet been decided. As the government is on a tight budget, trial services towards a part




of the socially disadvantaged class will probably begin first. Depending on the performance, the targets and budget will be expanded accordingly.

For middle and low-income people who can afford insurance premiums by themselves, the government is trying to apply tax benefits instead of actual subsidies. Expanding tax deductions on private and retirement pension payments is being considered. More specifically, the relevant ministries are discussing whether or not to raise the current tax deduction limit of 4 million won to 6-8 million won, or to separate the tax deductions of private pensions and retirement pensions, for example, 3 million won (US\$2,905) a year for retirement pensions and 2 million won (US\$1,936) for private pensions.

The government is also figuring out a way to unify the pension system based on retirement pensions in the medium and long term. At present, employees could choose either to receive a one-time severance fund or a pension income dispersed over a certain period of time, but this will be unified to only one option for retirement pensions. England,

after starting the NEST Pension system, has obliged all employees to have retirement pensions.

The Korean government is attempting to do the same, as employees of medium and small-sized companies tend to be left out in a blind spot for retirement pensions, and therefore face living difficulties in their late age after retirement. Large corporations with more than 500 full-time employees are required to give retirement pensions, but small companies with less than 30 employees are not. One to four out of ten have retirement pension benefits.

Together with mandatory retirement pensions, "fund-type retirement pensions" are also being considered by the relevant ministries. A fund-type retirement pension means that owners and employees manage a trust fund created out of retirement allowances. The above two options are not easy to promote yet, since there are various kinds of interest conflicts among employees, financial institutions, and management. Thus, the government will probably announce a big direction first, and social agreements will be needed for detailed action plans. 

Carbon Conflict

Industries Opposed to Government's Carbon Emissions Trading Plan

The carbon emissions trading system has been put in place for six months, but the conflict between the government and industry is being exacerbated over details such as the emission allowance.

On July 8 and 9, the Ministries of Environment, Strategy & Finance, and Trade, Industry and Energy had a meeting with industry associations and corporate directors to discuss the matter. Similar closed meetings were held late last month and early this month, too. However, the gap between the two sides still remains wide.

One of the major issues is the greenhouse gas emissions estimate. The industry has claimed that the emission allowance is too low for each company, because the national allocation plan recently announced by the Ministry of Environment is based on the BAU calculated in 2009. According to the plan, a total of 1.64 billion tons are allocated for the first period of the plan from 2015 to 2017.

Under the circumstances, the associations and corporations have demanded that the newly-updated BAU be open along with the basis of the calculation of the total emission allowance in the national allocation plan. The government reexamined the BAU last year but has not opened the result.

"The BAU estimates have not changed between 2009 and 2013, and there is no problem concerning emission allowance planning," the government said, adding, "We will not change the plan and we have not opened the result because our international reliability would be compromised if the BAU announced by the previous administration was changed." Various industrial sectors, in response, are opposed to the government's bulldozer-like policy management not reflecting Korea's indus-



trial structure and reality. "I have no idea why Korea is in such a hurry, with even the United States and China having yet to adopt the emissions trading system," an industry insider stated.

Another hot-button issue is reverse discrimination caused by the same burden on the companies that have been engaged in the early reduction of greenhouse gas emissions. It is said that those which already built eco-friendly systems could suffer damages due to the government's allocation of uniform upper limits.


According to industry sources, the penalty associated with the emissions trading system could exceed 28 trillion won (US\$27.7 billion), and the shortage of carbon emission rights is likely to occur across industrial sectors, which is expected to result in a trading breakdown. Nevertheless, the Ministry of Environment affirmed during the meeting that it would not postpone the enforcement of the system, change the total emission allowance, or open the 2013 BAU.

In the meantime, the annual sales revenues of Korean manufacturing companies are expected to drop by a minimum of 8 to 29 trillion won (US\$7.8 to 28.1 billion), when the emission trading

system becomes effective.

Lee Sun-hwa, a researcher at the Korea Institute of Local Finance, claimed such at the "Seminar for Emission Trading System and Subsidies on Low Carbon Automobiles" held by the Korea Economic Research Institute on July 16.

Lee provided four scenarios. By scenario, the decline in sales revenue ranged from 8.4 trillion won (US\$8.1 billion) minimum to 29.6 trillion won (US\$28.7 billion) maximum. These calculations are based on the price of a per-ton emissions trading system predicted by the E.U. The E.U. projected that such a price will be €22 (approximately 30,000 won or US\$29.76) by 2020, based on a 20 percent decline in emissions.

Researcher Lee predicted, "Product prices will rise due to the increasing costs of minimizing carbon emissions and intermediary goods, which causes fewer domestic sales and exports. After all, total sales revenues of manufacturers, especially in the steel, cement, non-ferrous metal, and chemical industries, will decline as well. Even with the minimum decrease scenario, sales will drop 14.9 percent in the cement industry and 4.9 percent in the steel industry." 

Korean Spatial Information

New Infrastructure Sets Stage for Development of Spatial Info Industry



Scientific technological convergence, development of advanced technology, and widespread cross-border collaboration are emerging as megatrends nowadays, signaling a fundamental change in the field of terrestrial management. This change is taking the form of terrestrial utilization focusing on disaster prevention and safety through a combination of high technology with social overhead capital.

Under the circumstances, the Korean government is planning to propose new visions, strategies, and action plans based on land use predictions incorporating the megatrends. Specifically, these will cover the living standards of the public, measures for creating new living spaces in urban areas, digitalization of city transportation, development of everyday living services, and the improvement of industrial and logistical infrastructure.

Similar measures were prepared by previous governments, but the previous plans concentrated on economic and social aspects rather than national land management. The incumbent administration, however, is going to come up with long-term strategies focusing on effective and systematic land management in the framework of the new national land development schemes.

In this context, the Ministry of Land, Infrastructure and Transport set this year as the first year for the growth of the spatial information industry. It is going to set up a comprehensive basic plan for national spatial information policy and implement it in a phased manner until 2018. In 2014 alone, the central government spent 212.97 billion won (US\$206.9 million) on 61 spatial data projects, and local governments used 81.64 billion won (US\$79.3 million) of budget for 324 projects. The number of projects and the size of the budget increased by 39 and 2.1 billion won (US\$2.0 million) from the previous year, respectively.

The domestic spatial information industry is still at its early stage. The sector is still filled with small businesses, although the government included the sector in the category of special industries last year. 44 percent of the 4,487 companies in it have four or fewer employees each, and the percentage shoots

up to 94 percent when businesses with 50 or more employees are excluded. The total sales of the industry accounts for just 0.4 percent of the national GDP. 72 percent of the hardware and 80 percent of the software used in spatial data systems, such as those for u-City and intellectual transportation, are imported ones.

The Ministry of Land, Infrastructure and Transport recently announced that 4,487 companies recorded combined sales of 5.4411 trillion won (US\$5.2862 billion) as of the end of last year. That was the result of the first survey conducted by the government in the spatial information sector. According to it, the technical service business represented 46.3 percent of the gross sales, followed by publishing and information service (29.2 percent) and the related wholesale business (11.0 percent).

During the same year, 1.4 trillion won (US\$1.36 billion) was produced in added value. The ratio of the added value to the sales was 25.49 percent, which was slightly higher than the overall industry average of 24.33 percent. 57.6 percent of the sales was posted in the private sector and the number of employees in the industry totaled approximately 43,000, with 9,751 persons newly hired in 2012. 53.2 percent of the workers were 39 years old or younger, while the ratio was 38.9 percent for entire industries.

The government has suggested four key strategies in order to promote the growth of the sector, which are divided into those relating to platform development, spatial data advancement, spatial big data utilization, and ecosystem creation.

First of all, the platform strategy is based on the national integrated spatial data management system that has been established by collecting the pieces of data scattered in government arms and public organizations. The system provides basic spatial information such as cadastral, building, road, and railroad network data and administrative maps for urban, sewage and water supply planning. The maps are available on an open platform basis.

“The basic ideas of the platform are openness, sharing, collaboration, and convergence,” said Director General Park Moo-



ik, who is in charge of national land information policy at the Ministry, adding, “The inter-organization cooperation and convergence will be expanded during the course of the production, management, distribution, and use of spatial data, examples of which include the open platform V World and the Onnara portal providing a wide variety of real estate certificates.”

In terms of spatial data advancement, the government focuses on the establishment of 3D and indoor spatial information systems this year, which will be provided for the public under the name of “V World,” once built. “The system comes with automatic and immediate updates, and the function will be of great help for SOC construction and project life cycle control,” he explained.

Also, the government will develop a satellite launch vehicle by 2018 to put a dedicated satellite into orbit while working on land information management systems making use of satellite data and spending 1.3 trillion won (US\$1.26 billion) by 2030 to complete cadastral resurveys. The resurveys carried out for the first time in 100 years are expected to have positive effects on property rights protection, conflict prevention, and the development of geospatial data convergence models.

The government develops spatial big data models, too. The system is scheduled to be established this year after the completion of strategic planning. In the first phase, analysis is slated for 15 types of big data covering real estate, transportation, water resources, and the like. 40 types including road networks and transport logistics will be added in 2015, and 25 more will be added in 2016.

During the ecosystem creation, the focus of the industry has shifted from production and management to processing and distribution, and then to convergence. It has also shifted from government-to-business (G2B) to business-to-business (B2B) and business-to-consumer (B2C). “Specialized colleges, graduate schools, and high schools will be used for manpower cultivation and start-up promotion centers will be set up to support new firms, while overseas business assistance and survey-cadastral convergence are expanded,” the director continued.

Laws Revised for Systematic Growth of Spatial Information Industry

In the meantime, the Ministry of Land, Infrastructure and Transport recently announced that the revisions to the Basic Act on Spatial Information, the Spatial Data Industry Promotion Act, and the Act on the Establishment and Management of Spatial Information passed the plenary session of the National Assembly and were fixed at the Cabinet meeting so as to enhance the competitiveness of the sector as a new growth driver.

The Basic Act on Spatial Information covers the organization and operation of the National Spatial Data Committee, and the revised bill carries measures for sound development of the industrial segments such as cadastral surveying. According to it, the Korea Cadastral Survey Corporation will be renamed into the Korea Land Information Corporation for enhanced public functions in technological development, standardization, and overseas business support, and will transfer some surveying functions to the private sector.

Plus, the Spatial Information Industry Promotion Institute has been turned into a statutory agency by the Spatial Data Industry Promotion Act, and the Korean Association of Surveying & Mapping and the Korea Cadastral Association have been combined with each other into the Korea Spatial Information Industry Association for more effective collaboration.

The compilation of related statistics is expected to be carried out in a more systematic way, too. For instance, the “Act on Land Survey, Waterway Survey and Cadastral Records” has been re-titled the Act on Establishment and Management of Spatial Information, stipulating details about the standards, procedures, and management of survey records.

Director General Park said, “The recent legal revision will expand the public function of the Korea Land Information Corporation, and the industry participants will be given opportunities for synergy, which will lead to the higher competitiveness and growth potential of the industry.” **BK**

Spatial Information Industry

Government Focusing on Support Systems for Convergence, Sharing

The Korean government has been making efforts to develop the geospatial information industry as a key growth engine of the Korean economy since the National Geospatial Information Symposium held in 1995. The industry is now attracting attention from overseas. However, there are as of yet some hindrances to be addressed before it can move into a stronger competitive position. BusinessKorea sat down with Park Moo-ik, Director General of the Spatial Information Policy Bureau at the Ministry of Land, Infrastructure & Transport, to hear about the government's policies and plans, including insight into the recent revisions of the laws governing the geospatial industry. What follows are excerpts from the interview.

What is the background of the three spatial information laws?

The Korean government's spatial information management was consolidated in 2008, when the former Construction and Transportation Ministry's survey and cartographic work, the Public Administration and Security Ministry's cadastral work,

and the Ocean and Fisheries Ministry's channel investigations were transferred to the Ministry of Land, Infrastructure and Transport. Since then, the three laws were enacted for legal and organizational realignment and the better utilization of related systems.

Still, there have been some conflicting interests among the segments associated with spatial data that hamper the growth of the spatial information industry into becoming a leading engine of the creative economy. Major problems include the strife between companies, blurring boundaries among industry segments for excessive segmentation, the Korea Cadastral Survey Corporation's unique characteristics in that it insists on carrying out survey work itself, and overlapping investment in equipment and manpower for additional registration.

This is why the government organized a task force with related organizations in April last year and prepared the "Plan for Promotion of Spatial Information Industry through Convergence and Sharing." The enactment of the three bills is a follow-up of the plan.

Please let us know more about the details of each bill.

First, the previous Act on National Geospatial Information was like a framework act governing the establishment of basic plans for national geospatial information policy and the organization of the National Geospatial Information Committee for the coordination and adjustment of the policy. It has been modified into the Basic Act on National Spatial Information.

Also, the Korea Cadastral Survey Corporation is going to have enhanced public functions under the new name of the Korea Territorial Information Corporation. The basis of establishment was changed from the Act on Land Survey, Waterway Survey and Cadastral Records to the Basic Act on National Spatial Information.

Secondly, the Spatial Information Industry Promotion Institute, which was set up in June 2012, was converted into a statutory organization according to the Spatial Data Industry Promotion Act, so that anyone can make better use of geospatial information to create new business opportunities and the institute can do its job with greater stability and responsibility.

The Korean Association of Surveying and Mapping and the Korea Cadastral Association were integrated as the Korea Spatial Information Industry Association as well for greater convergence and synergy in the sector and easier public access to geospatial information.

Lastly, the Act on Land Survey, Waterway Survey and Cadastral Records was renamed to the Act on Establishment



Park Moo-ik, Director General of the Spatial Information Policy Bureau at the Ministry of Land, Infrastructure & Transport

and Management of Spatial Information, because the former is about the standards, procedures and management of surveying cadastral records to form the foundation of spatial information systems. The new act is expected to result in a comprehensive management framework for survey information.

What effects are you anticipating to see come from the revisions?

The geospatial information industry is expected to enjoy very rapid growth by opening more and more national information to the public and allowing the resources to be utilized in various fields. It can be said that the new three acts set the stage for such growth.

In particular, the laws will help us deal with the delay in the sector's development caused by conflicting interests. The information and data in the survey and cadastral segments will be managed in an integrated way and will be opened to the public for convergence and combination with other resources such as location-based services.

Moreover, the Korea Territorial Information Corporation (KTIC) will have greater public functions as the national agency of spatial information technology development, standardization, quality control, and education. In addition, the surveying excluding cadastral surveying and business relating to products supplied by small firms in the industry will be excluded from its scope of business by law to prevent any dispute with the private sector.

The KTIC will provide greater support for the private sector so that new markets are created both at home and abroad, and segments like confirmation surveying will be opened one after another.

How competitive is Korea's spatial information industry, and what measures are required for higher competitiveness?

The first spatial information project of Korea was launched in 1995 through the National Geospatial Information Symposium. Since then, the sector has developed to be comparable to those of advanced economies. An increasing number of countries are paying much attention to Korea's geospatial information industry these days.

Nevertheless, it is also true that the sector's development has been led mainly by orders from the public sector, and the majority of the companies are still too small in scale to be competitive enough in the international arena. For instance, car navigation system manufacturers, which have shown a high degree of perfection in the domestic market, are finding it difficult to go abroad due to the lack of understanding of overseas traffic conditions or localization capabilities such as foreign language services.

The Ministry of Land, Infrastructure and Transport will encourage further international cooperation by signing MOUs with promising countries and holding the Smart Geospatial Expo and overseas road shows and the like in order to enhance the competitiveness of the industry. In this way, Korea's pub-

lic spatial information systems will be able to be exported to more nations along with related software, hardware, and human resources.

At the same time, we will be working on spatial information quality certification systems so that small-scale firms can raise their awareness and reliability and be assisted in overseas businesses. Various policies will be in place on an ongoing basis for the same purpose, including the development of source technologies based on R&D and the establishment of convergence support systems.

What are the main features of this year's Smart Geospatial Expo?


The Smart Geospatial Expo has been held each year since 2008 to promote the development of the spatial information industry through the exchange of advanced technologies and popularization of geospatial data. The integrated events and conferences covering geospatial data services, cadastral surveying, and many more have been of great help for Korean firms' overseas market penetration, too. Korea has also opened the Open Geospatial Consortium general assembly and adopted the Seoul Declaration at the Ministerial Meeting of the 12 countries.

The Smart Geospatial Expo 2014 is going to be a forum of international business for the realization of Government 3.0 and the Creative Economy slogans of the Korean government, and assistance in the sector's overseas penetration. I hope the international conference for the acceleration of the growth of the geospatial information industry will enjoy a further increased standing this year.

The expo, which celebrates its seventh anniversary this year, comes with a variety of events, exhibitions, and conferences, including the International Conference on Geographic Information System (ICGIS), to promote the development of the spatial information industry and Korean companies' overseas market penetration.

Diverse new products relating to the Internet of Things (IoT) and position measurement are available in the exhibitions. The examples include smart phone tagging-based coffee machines providing customized coffee, indoor navigation systems using tablet PCs and near field communication, and many more, all of which will catch the eyes of the audience.

The international conference that has been held since last year for Korea to take the lead in the global spatial information industry will be attended by scholars and experts from all around the world, who will discuss and make presentations about the topic of spatial big data. The third high-ranking meeting will cover specific action plans for knowledge sharing and the establishment of a permanent consultative body based on the 2013 Declaration on Manpower Cultivation in Spatial Information Sector.

Various auxiliary events such as job recruitment, a start-up expo and an idea contest for spatial information utilization are also prepared. These will be of great help for young people seeking jobs and corporate foundation. 



Smart Geospatial Expo 2013.

Smart Geospatial Expo 2014

Showcasing Spatial Information Technologies to the World

More than 80 percent of our daily life is processing spatial information. Spatial information refers to any information related to organic and artificial creatures present on the ground, underground, underwater, and space.

The Sewol ferry disaster evoked the importance of spatial information and how to utilize such information. While the Sewol was sinking, evacuation instructions from the control center of Korean Coast Guard through a smartphone application, instead of erroneous instructions delivered through a broadcasting system inside the vessel, could have saved many lives. Furthermore, if the vessel's movement was monitored in real time and a danger warning was activated upon the vessel's unusually large tilt, instead of asking the latitude and longitude of the vessel when 119 initially received an accident report, much quicker responses could have been possible.

Likewise, spatial information will be converged with various advanced technologies to enhance the national disaster response level and ultimately to improve safety conditions in daily life. Spatial information is an essential infrastructure component, since this could create crucial value through effective disaster control and on-time response actions, and solve social problems through predicting the future in the end. The Ministry of Land, Infrastructure and Transport has been hosting a "Smart Geospatial Expo" since 2008, so that domestic and overseas professionals in the spatial information fields could examine

the current trends of the spatial information industry and share the future outlooks.

This year's Smart Geospatial Expo 2014, in which the spatial information technology of Korea and progress of spatial information industry are to be exhibited, will be held in COEX from August 25 to 28.

The Smart Geospatial Expo is a specialized exposition of spatial information businesses. In this expo, visions of the spatial information industry are shared, new business models are introduced through new added values created by convergence of various industries and technologies, and market outlet pioneering and exports of related companies are encouraged. This expo is becoming a very conspicuous exhibition and conference, as spatial information is utilized in a wide range, from people's daily life which includes navigation, traveling and LBS, to professional fields which entail transportation, national security, disaster and environment control, and city planning.

This year the industry exhibition will facilitate sharing advanced spatial information technology, related services and businesses to invigorate the spatial information industry as well as various spatial information related conferences. Other related events such including an idea contest and start-up fair will be prepared as well.

The Smart Geospatial Expo 2014 has been planning to

target the two issues of the rapidly-changing ICT technology environment and popularization of geospatial information under the slogan “Geospatial Information to Put Forward Happiness to People, More Value to National Land.”

The industry exhibition consists of ten different zones, which include a Spatial Information Creation Zone, Future of Spatial Information Zone, Spatial Information Convergence Zone, Experience Zone, and Big Data Special Zone. Spatial information content that is converging with ICT will be exhibited, which is applicable to daily life in many ways. Especially in the experience zone, recent spatial information technologies including smart glass, Kingdome Rider, and Moving Rider will be available for testing.

For the first time as an exhibition, “Indoor Navigation” will be set up, which enables visitors to check current location information on exhibition booths nearby. A key point of this exhibition is that recent big issues in the spatial information industry, including spatial big data, anti-disaster applications, the Internet of Things (IoT), and augmented reality are available.

The Special Big Data Zone consisting of 18 booths with 10 organizations will introduce the big data policies of Korea, government projects status, data mining techniques and soft-

ware of specialized companies, and test big data programs for the public.

In the Experience Zone, SOS security services, smart rescuers, emergency applications, 3D-4D base automobiles converged with spatial information, aircraft simulation devices, customized coffee dispensers based on IoT technology (customized coffee is dispensed following individual orders from smartphones), and augmented reality implementation items will also be available for trials.

An idea contest, one of the additional events, is currently receiving applications in four areas of application development, big data utilization, spatial information policy suggestions, and good examples of spatial information appliances. The final evaluation and awards ceremony will be held on August 25.

The Ministerial Meeting of High Level Forum and International Conference On Geospatial Information Science (ICGIS) are also held during the event.

The Ministry of Land, Infrastructure and Transport, the host of this event, expects that this expo will become a good opportunity to come up with various disaster solutions based on spatial information and to check the current status and future outlook of the Korean spatial information industry. In addition, this event could encourage people unfamiliar with the

Pilot Projects about Spatial Big Data by LH

The Korea Land & Housing Corporation (LH) is concentrating on prior preparations for exhibition booths and conferences at the Smart Geospatial Expo 2014, to be held at COEX.

LH will run six booths for its exhibitions, build a “cyber new town” of Sejong Happy City through high precision digital photography, and form a spatial information experience zone that includes video clips combined with games. LH will also set up an information business notice zone in which visitors can experience an “Onnara (whole country) Real Estate Information portal” and video of the “cyber happy city.” LH will have its own promotion zone utilizing its own promotional videos as well.

LH will also put on conference events, by hosting the first topical seminar during the expo. Specific schedules and agenda of the seminar will be decided after discussions with the research support department of LH.

Outside of the expo, LH will also start spatial big data pilot businesses in 2014 under the name of “happy housing business area prioritizing model.” LH aims to prioritize business areas by estimating the potential demand by region and residential segments through big data in order to maximize the utilization of space. Residential segments will be divided into college students, social beginners, newlyweds, an underprivileged class, and the elderly. For this, LH collected and analyzed common data including house ownership, owner-

ship of home deposit, average income, and individual data including health insurance information for cases such as social beginners.


In order to actually realize the model, 30 categories were created according to individual or household income (including house ownership) based on income segment data from credit information companies. These 30 categories were matched to residential segment by income range and age. In addition, information was used about those that have housing deposits and health insurance by gender, residing area, age, and office location in the last five years.

According to regional distribution by income level provided by credit information companies, the applying qualifications of college students, social beginners, and newlyweds were mismatched with applicable or adjacent areas such as the current attendance of certain schools or companies. This data were modified through telecommunication records provided by a telecommunication service provider (SKT). Base station information was used at night to find where each person actually was, while school or company attendance records were used in the daytime.

Actual demand estimation will be done in August by subtracting the number of people who have already moved into rental apartments of LH from the demand population by region and residential segments calculated through the above processes.

concept of spatial information to experience spatial information cases for safety tightly applied to daily life and meet the new advanced technologies of spatial information.

Urging the active participation of many people, an official at the Ministry of Land, Infrastructure and Transport said,

“Spatial information is the main driving force for the creative economy, as spatial information could create high added value converged with ICT and other industries.” The spatial information market is expected to grow to 150 trillion won (US\$145 billion) worldwide by 2015. 

Agenda for Smart Geospatial Expo 2014

Time : August 25 (Mon) to 28 (Thu), 2014

Place : COEX, Seoul

Host : Ministry of Land, Infrastructure and Transport

Organizer : Korea Land and Housing Corporation (chief organizer), Korea Cadastral Survey Corporation, Korean Association of Surveying and Mapping, Korea Research Institute for Human Settlements, Spatial Information Industry Promotion Institute

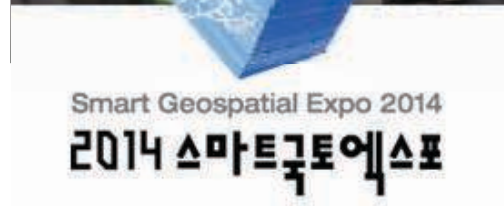
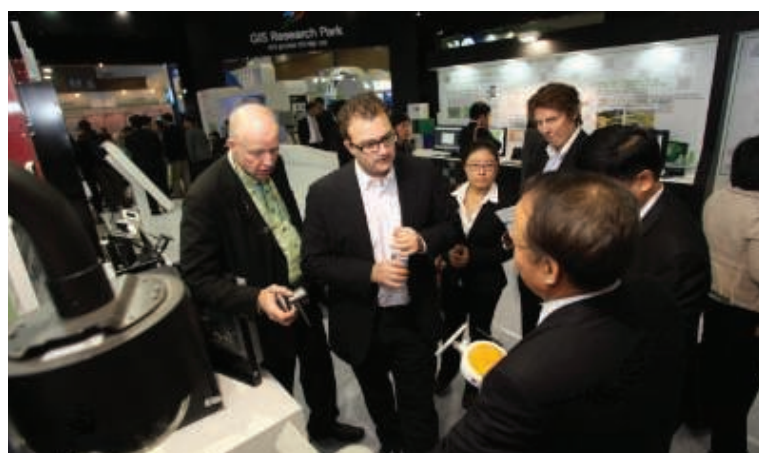
Attendees : 30,000 Estimated including Professionals in Spatial Information Industry and Public

Major Events and Schedule

Major Events	Day 1	Day 2	Day 3	Day 4
	25 (Mon)	26 (Tues)	27 (Wed)	28 (Thurs)
Opening Ceremony	⊙			
Exhibition Center Operation	⊙	⊙	⊙	
IC-GIS, Domestic and Global Conference	⊙	⊙	⊙	
Global High-Level Meeting	⊙	⊙	⊙	⊙
Unit Events	⊙	⊙	⊙	


Operating Plans of Exhibition Booths

Structure	Contents
Introduction Zone	Basic spatial information and exhibition content information
Host/Supervising Organizations Zone	Spatial information businesses of host and supervising organizations
Spatial Information Creation Zone	Spatial information-related technologies and products of companies in practice
Spatial Information Convergence Zone	Spatial information technologies applied to daily life such as for safety and traveling
Public Service Zone	Spatial information-based administrative services, with participation of government and public organizations
Spatial Information Future Zone	New spatial information technologies developed by affiliated research organizations, associations, and colleges
Space Big Data Special Zone	Phenomenon analysis, prediction and application processes of big data
Recruiting Zone	Company-job seeker recruiting and start up support center
Experience Zone	New technology experiences are available to attract attendees and enhance public understanding of spatial information industry
Rest and Application Zone	Applications based on spatial information available for trials



Choi pointed out that structural problems, including low household incomes and non-regular employment, are worsening domestic stagnation. He explained, "Low growth, low price, and excessive current account surpluses are extended, and therefore threatening the entire macroeconomy of Korea. Exports, domestic demand, households, and com-

Samsung Electronics' performance

In the meantime, GM Korea decided to go on strike on July 9, with 69.3 percent of the registered union members in favor. The labor union of Renault Samsung Motors, which voted for a strike with an approval of 90.7 percent, is going to rush into the strike on July 11. Hyundai Motor Company has gone through wage negotiations with its union twice each week since July 3, but no agreement has been made yet. Last year, Hyundai lost about 5 percent of its domestic production due to the partial strikes that cost 50,000 cars and 1.2 trillion won (US\$1.1 billion), not to mention significantly decreased exports. 

Pump Priming

Economic Stimulation Focusing on Housing Market Deregulations amid Controversy over Its Ways

President Park Geun-hye makes introductory remarks at a presidential secretary meeting held on July 14.

President Park Geun-hye said that excessive regulations in the housing market that were introduced during the bubble stage should be eased to revitalize the market.

"The housing market is where the general public can feel the recovery of the national economy first," she remarked at the secretary meeting she presided over that day, adding, "As such, the revitalization of the real estate market is a very urgent matter."

It has been said that the remarks are to buttress the housing deregulation policy of her second economic team launched this week headed by Deputy Prime Minister and Minister of Strategy & Finance Choi Kyung-hwan. Under the circumstances, the relaxation of the DTI and LTV ratios is expected to follow the processing of the pending bills relating to repealing the restitution of redevelopment profits and the flexible management of the price ceiling system.

"I would like the second cabinet to prepare its economic policy for the second half of this year as early as possible, so that people can feel the recovery," she continued, "At the same time, the priority of the 59 policy tasks will have to be determined without delay for concentrated execution as a part of the government's three-year plan for economic reform."

She also mentioned that deregulation is directly related to investment and job creation, and thus she will check on the history of the implementation of deregulatory measures by holding a conference in the near future.

In the meantime, experts are



expressing concerns over the government's attempt to stimulate the national economy by encouraging corporations and households to take out loans.

Some examples are funds, such as the National Housing Fund, Small and Medium Enterprise Establishment and Promotion Fund, Korea Credit Guarantee Fund, or Korea Technology Credit Guarantee Fund, which effects are considered to be dubious at best.

These funds, in fact, are money that should be borrowed with interest by the beneficiaries. The annual variable rate of the Home Purchase Loan for Housing Market Stability of the National Housing Fund, planned to be 46.5 trillion won (US\$45.1 billion) this year, is 3.5 percent. However, the minimum mortgage loan rate in the banking sector is slightly over 3 percent nowadays.

In the meantime, 3.82 trillion won (US\$3.7 billion) out of the 5.0282 trillion won (US\$4.867 billion) of the Small and Medium Enterprise Establishment and Promotion Fund is scheduled to be spent on financing this year. The base rate is 3.12 percent, and the rate

goes up to way over 4 percent when the additional interest depending on corporate credit rating is added. With the rates for start-up funds based on bond issues slightly over 4 percent, the possibility of a reverse margin is preventing any further drop in the lending rate.

This means that the policy interest rate, which is characterized by a high downward inelasticity, has to be burdened by the borrowing companies with the commercial rate going down. "The decision to make use of the funds is based on the current situation in which the financial resources are limited but economic stimulus effects have to be shown," said the National Assembly Budget Office, adding, "However, the actual amount that can be spent is likely to be limited in view of the original purpose of the funds."

Under the circumstances, the DTI and LTV ratios that are slated to be relaxed soon, along with the provision of the funds, are also to encourage home purchases by means of additional lending, and concerns over debt increases are on the rise. BK

Change of Economic Policy

New Economic Team in Strong Pursuit of Growth



Choi Kyung-hwan, prime minister and Strategy & Finance minister candidate.

Prime Minister and Strategy & Finance Minister candidate Choi Kyung-hwan said, in the written answer for his confirmation hearing, that his economic team's foremost goal is the recovery of domestic demand. Particularly, he put stress on the creation of decent jobs and a higher employment rate for the general public to be able to feel the recovery, while not denying the possibility of a revised supplementary budget.

He is expected to be in more aggressive pursuit of economic growth than his predecessor was. "The recovery of the Korean housing market is slower than in those of other countries and in the past, and we need to revitalize it by relaxing regulations such as the loan-to-value and debt-to-income ratios and the apartment price upper limit," he said, adding, "Obligatory house rental registration, which is one of the party platforms of the opposition, is a kind of over-regulation, and the supply of more rental houses and the expansion of housing allowances appear to be more desirable ways to stabilize the rental market."

He explained that deregulation in

the metropolitan housing market, a hot-button issue as of late, has to be pursued based on social consensus. "Deregulation in the region should be in harmony with the value of balanced regional growth, meaning it requires social consensus, and we have to be in view of various factors such as support measures for the other regions and the pace of deregulation in the metropolitan area," he continued.

The candidate also mentioned the possibility of a revised supplementary budget, though with some preconditions. "We are not mulling over such budget at the present moment, but will tap into it if the national economy is in a more severe slump," he commented. Experts are predicting that the measure will be introduced after the announcement of economic indices for the first half of this year by the financial authorities, with the size of the budget at around 10 trillion won (US\$9.8 billion), and after the government adjusts its economic growth rate forecast for 2014 slightly downward to 3.8 or 3.9 percent.

Controversy remains though. The forecast of slightly below 4.0 percent is


still higher than the potential growth rate and a large number of insiders are concerned now over deteriorating fiscal sustainability. The financial management balance for this year is estimated at no less than 25.9 trillion won (US\$25.6 billion) in the red.

"We will have to take more prudence when it comes to tax increases, because it has a sizable impact on investment and consumption," he said, reiterating his stand against the issue. However, the candidate agreed with the welfare authorities regarding tobacco price increases, which is contrary to his earlier stance.

In the meantime, as the national economic slowdown is turning into reality, not the government but also the Bank of Korea has adjusted its economic growth forecast for this year downward to a large extent.

The Bank of Korea cut its growth rate estimate for 2014 from 4.0 percent to 3.8 percent on July 10 and, for 2015, from 4.2 percent to 4.0 percent. Also, it lowered the inflation forecasts for the next two years from 2.1 percent to 1.9 percent and from 2.8 percent to 2.7 percent, respectively.

The downward adjustment is based on concerns over the tapering by the U.S. Fed and sluggish domestic consumption. Central Bank Governor Lee Ju-yeol remarked that various downside risks are imminent in the Korean economy, as the global economy is slowing down to portend deteriorating consumer sentiment and real economic indices.

Nowadays, a variety of economic indices constituting the GDP are showing signs of instability, ranging from household consumption and corporate investment to trade balances. The recession-type surplus that has continued for 27 months is one of the biggest problems with the Korean economy. According to the central bank, Korea recorded US\$9.3 billion in current account surplus in May and US\$31.5 billion during the first five months of this year. Experts are increasingly concerned over the recession-type surplus following a decrease in imports. 

Financial Regulation Reform

FSC to Ease Hidden Restrictions While Promoting Autonomy, Competition

The Financial Services Commission (FSC) announced on July 10 that “hidden restrictions” such as administrative guidance or internal regulations of financial institutions will be eased a lot more than the “obvious restrictions” written into the law.

Since the reformations so far have focused on legislation, unreasonable regulations through administrative guidance have been created, and the old regulations of financial institutions and financial associations that impede the improvement of the financial industry and protection of consumer rights have not been controlled.

The FSC listed about 3,100 reformation targets through 12 field studies and the examination of the regulations of 22 financial organizations including public financial companies and financial associations since last March. 1,767 items were picked, and 711 will be improved.

The regulation improvements will be implemented within this year. Relevant bills and rules will be amended during the second half of this year, and these will be effective within the year. However, issues in which many parties are in conflict such as the sales of financial products, financial consulting businesses, universal banking, and diversification of payment methods will be reviewed long-term through public discussions and research.

The government also desires to escape from the exclusive service system of the financial industry, the limit of the financial industry so far, by converging and combining various financial services. The government aims to enhance synergy by making banks, insurance companies, and securities companies provide one another's services as well as their own.

Banks, insurance companies, and



securities companies, which are affiliated with one another, will have more active sales channels as well as additional and combined businesses through transferring physical offices into flexible and liberal workspaces. Old traditions to require customer documents to be directly collectible from financial institutions will be gone as well.

In the meantime, exports say one of the most urgent issues is the financial tax as South Korea and China have recently agreed on the establishment of a direct trading market at the bilateral summit talks. The development and trading of derivatives, with which investors can protect their earnings rates from foreign exchange and interest rate risks, have to be smooth if more yuan capital is to flow into Korea. Nonetheless, the government and the National Assembly are planning to discuss the enactment of a bill for heavier taxation on derivatives from the latter half of this year.

“The derivatives market is likely to be shrunk a lot if the tax comes in all of a sudden,” said a high-ranking executive at a major stock firm, adding, “Efforts for the attraction of yuan will be limited at best, unless the derivatives market is allowed to properly function as a prop.”

Another obstacle is its system for taxation on bonds, in which only an interest income tax with a rate of 14

percent is imposed. Foreign investors in Korea used to be subject to tax exemptions in the past when it came to bond interest income, but the exceptional clause was repealed four years ago. Transfer gain is likely to become taxable in a similar way, too.

Quasi-taxes could impede the yuan hub strategy as well. The Korean government has imposed a so-called bank tax since 2011 on banks that have non-deposit foreign currency debts in order to prevent foreign exchange fluctuations attributable to an excessive increase in short-term loans. “Sufficient yuan enough for financial institutions to meet the domestic demand has to be supplied to the market when the yuan hub is set up, but the bank tax is a kind of burden on those banks wishing to procure yuan,” a local commercial bank explained.

Under the circumstances, the minimum rate for corporate taxes has been raised to accelerate tax increases, and conditions for the attraction of financial institutions are becoming more and more unfavorable. “Most of the financial hub countries have attracted foreign capital and investors with low tax rates,” said Dr. Lee Yun-suk at the Korea Institute of Finance, continuing, “This means that we need to overhaul the tax system with reference to those countries.”

Huge Investment

President Xi Jinping Ignites Full-scale Investment in Korea of Over US\$7 Bil.

Thanks to the visit from President Xi Jinping, many Chinese entrepreneurs with a keen interest in Korean investment have come to Korea. They represent many Chinese corporations and will sign MOUs of more than US\$7.05 billion with Korean companies.

Following General Secretary Xi Jinping's schedule in Korea on July 3, seven delegates from the Department of Commerce in China as well as 116 representatives from 94 Chinese companies attended the Korean Investment Climate Fair held by the Ministry of Trade, Industry and Energy and KOTRA at KOTRA headquarters.

The Chinese Department of Commerce and Chinese corporations will sign four major MOUs before leaving Korea: between the LG Chemicals and the Nanjing city government for energy cooperation, POSCO and Chongqing Iron & Steel, SK and Zhengwei Group, and SKC and TCL Group. The four MOUs together are US\$7.05 billion in value, including LG Chemicals' US\$400-500 million and two others. The amount of the last one has not yet been disclosed.

This is almost half of Korea's US\$17 billion foreign investment target this year, and total foreign investment during the first half of this year reached US\$10.7 billion.

The Korean government introduced the current foreign investment policy, investment climate in Korea, and major ongoing projects including Saemangeum China Valley to representatives from Chinese companies specialized in finance, investment, trading, services, infrastructure contracts, real estate development, manufacturing, bio-medicine, agriculture, and mining. It is very important to capture China, the world's major investor, now.

Chinese direct investment in Korea increased 670 percent to US\$770 million until June this year, relative to the previous year, as major Chinese investments such as Tencent's into CJ Games was brought in. If indirect investment through Hong Kong and Singapore is counted, total Chinese investment increased 1,500 percent to US\$1.5 billion.

It is highly expected that many investment projects will



Liu Tianshin, Director General of Investment Promotion Bureau at the Chinese Commerce Department, gives a welcoming speech at the briefing session on the Korean investment environment held at KOTRA headquarters on July 3.


be discussed, as Chinese entrepreneurs attended the Korean Investment fair along with General Secretary Xi Jinping's visit.

Two countries both understood that investment cooperation should be expanded to real estate development and cultural content including movies, TV dramas, and fashion with Hallyu effects, stepped further from existing areas of manufacturing.

Luoxing, chief art director of Beijing Art Exchange, expressed a keen interest in Korean dramas and movies and joint investment in this field. Director Luoxing will sign a contract to co-produce "Kunmingjiyeon" with director Kang Jae-gyu.

The CEO of Shinhwayeon Real Estate Corporation said, "Jeju Island should be open-minded for foreign investors. We are interested in Yeongjongdo as well as Jeju." This is an indirect counter-expression against Won Hee-ryong, governor of Jeju Island, who showed negative opinions on Chinese investment. Governor Won Hee-ryong, right after being elected recently, requested to delay the investment permission and official ground-breaking ceremony of "Resort World Jeju" of Landing Group Hong Kong project after his inauguration.

Oh Young-ho, CEO of KOTRA, said in his greetings, "Cooperation between Korean and Chinese companies shall be upgraded and diversified, evolved from manufacturing-based import and export models for the demands of advanced countries. Trading and investment structure, traditionally based on manufacturing, between Korea and China should be targeted to link new growth momentum of Korea and strategic businesses of China."

Ryu Jeon-hoon, director of Department of Commerce in China that has recently established investment information archive for five major industry fields including natural resources, agricultures, energy, industrial and consumer goods and IT mentioned, "Chinese entrepreneurs in fields of infrastructure construction, real estate development, financing, business service, industrial manufacturing, agricultures and mining are expecting effective cooperation with Korean companies." 

Hub for Yuan

Korea Looking to Become Yuan Hub in Asia While Interest in Chinese Bonds Skyrocketing

After the summit meeting between South Korea and China on July 3, President Park Geun-hye and President Xi Jinping announced economic cooperation measures, including direct transactions between the won and the yuan.

If the direct transactions are allowed, Korean companies do not have to change money for trade with China. The size of the trade between Korea and China amounted to US\$230 billion as of the end of last year, and 99 percent of it was based on the currencies of third countries. The Bank of Korea and the Ministry of Strategy & Finance explained that Korea's dependency on the U.S. dollar can be decreased, and the instability in the forex market due to foreign exchange fluctuations can be eased as well with direct transactions. The size of yuan-based trade across the world reached 4.6 trillion won (US\$740 billion) as of last year.

The establishment of a yuan clearing bank is expected to further boost the mutual investment and trade. At present, such clearing banks are located in Taiwan, Hong Kong and Singapore and are planned to be set up in Britain, France and Luxembourg.

"In Hong Kong, the size of the trade settlement based on the yuan increased eight-fold during the two years from the establishment of a yuan clearing bank in 2010," said Korea Capital Market Institute researcher Ahn Yu-hwa, adding, "Korea's infrastructure as a financial hub will be on par with that of Hong Kong once it houses the clearing bank and allows direct transactions." The balance of the yuan-denominated bonds issued in Hong Kong surged by 60 percent to 237.2 billion yuan (US\$38.15 billion) between 2011 and 2012. The funds also acted as a kind of leverage for Hong Kong's investment in mainland China.

In fact, investors are showing high interest in Chinese bonds after the Korea-China summit. Yields on Chinese bonds are higher than Korean bonds and the cost of investment such as commissions and other charges has become lower as direct investment is allowed.

According to the investment banking sector on July 8, 80 billion yuan (US\$12.9 billion) of the Renminbi Qualified Foreign Institutional Investor (RQFII) limit has been assigned to Korea, which was decided during the summit.

This is equivalent to 13 trillion won of RQFII limit, and means that Korean institutional investors could directly invest




in the Chinese bond market. Since investment in the Chinese bond market so far was done through other RQFII countries such as Hong Kong, it was not quite attractive due to commissions and other investment costs.

Kim Jin-woo, a researcher at Shinhan Investment Corporation, said, "The most attractive feature of Chinese bonds is the difference in yields (compared to Korean bonds). This invites lots of investors in this low-yield market."

The difference in yields of 3-year Korean treasury bonds and Chinese ones were indeed 125bp (1bp=0.01 percent point) on July 4, which is extremely tempting to institutional as well as individual investors. The difference in yields of Korean and Chinese corporate bonds is more than 200bp.

Considering that international credit rating company Moody's gives an Aa3 rating to both Korea and China, the yield differences are significant. Chinese bonds are even more attractive than savings accounts in Chinese yuan, which have been very popular with the additional yields of 40-80bp relative to savings accounts in commercial banks.

It will take some time, though, to actually launch products directly investing in Chinese bonds. Researcher Kim Jin-woo explained, "In order for direct investment in Chinese bonds to get started officially, we need to enter the inter-bank bond market, which needs to be separately approved by the People's Bank of China."

Products that provide fixed yields in Korean won after hedging exchange risks would be the most positive types, if products directly investing in Chinese bonds actually come into market. These products will be most likely to be introduced early next year when the RQFII limit is extended and a direct transaction system is set up. Securities companies also need to select qualified gilts. 

Insolvency Fear

20% of Affiliates of Conglomerates on the Brink of Insolvency



About 19.7 percent of the subsidiaries of Korean conglomerates are with impaired capital, or have a debt ratio of over 400 percent.

According to management evaluation firm CEO Score, out of the 1,418 subsidiaries of the 47 business groups with an asset size of at least 5 trillion won (US\$4.94 billion), a total of 279 companies were categorized into a group of marginal firms and subject to cross shareholding restrictions. Out of those, 110 had impaired capital and 169 of them had a debt ratio exceeding 400 percent. The Financial Services Commission applies the highest penalty score to those with a debt ratio of 400 percent or higher when selecting main debtor group companies.

It is the Dongbu Group that has the largest number of such firms with liquidity problems. Specifically, 24 out of its 51 non-banking affiliates have impaired capital or a debt ratio of at least 400 percent. Second in line is the GS Group, where 19 out of the 78 subsidiaries have liquidity risks. Still, only GS Engineering & Construction has a relatively high debt ratio of 263 percent, and the others are affiliated with Cosmo, which is affiliated with GS.

The GS Group was followed by CJ (15 subsidiaries, 22 percent), Lotte (14, 22 percent), Hyosung (14, 34 percent), KOLON (12, 34 percent), Taeyoung (12, 32 percent), SK (11, 14 percent), and Hanwha (11, 26 percent). Meanwhile, the Young Poong Group, Amore Pacific, Kyobo Life Insurance, and Homeplus have no firms with liquidity risks.

By group, Hyundai recorded the

highest debt ratio at 540.5 percent, and was followed by Hanjin (452.4 percent). Both are common in that their major subsidiaries are transport logistics companies such as Hyundai Merchant Marine and Korean Air.

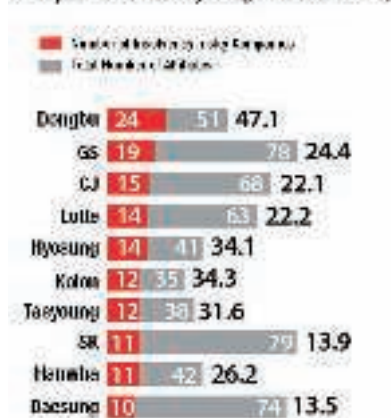
40 Large Businesses Concerned over Liquidation

Many of the Dongbu Group's subsidiaries are in the face of workout programs or court receivership, signaling additional large-scale restructuring. Approximately 40 major corporations are scheduled to be subject to restructuring next month. The creditor banks have recently wrapped up their regular credit risk evaluation on conglomerates, with a credit offering of 50 billion won (US\$49.4 million) or more. They are going to finalize the list of the C-rated and D-rated firms for workout and court receivership early next month, respectively.

A total of 1,802 firms were subject to regular credit risk assessment last year, and 584 to detailed evaluation. Unfortunately, the number increased a little bit this year. That of restructuring targets has rarely decreased, in spite of the restructuring processes that continued for the past five years. Last year, 27 were found in the C category and 13 in the D category, most of which were construction firms, shipbuilders and steel-makers.


"We are planning to minimize the number of companies to be subject to court receivership and give an opportunity to the largest possible number of

Current Status of Insolvency-risky Companies Owned by Conglomerates



them, in view of the reserve conditions in the banking sector," said one of the creditors.

In the meantime, even those engaged in preemptive restructuring in compliance with the Corporate Restructuring Promotion Act are concerned over an increasing possibility of insolvency. A couple of business groups that are currently moving ahead with financial structure improvement are expected to fall into the category of companies at risk.

"It is true that banks have become very strict in lending approval since the outbreak of the Dongbu scandal," a commercial bank manager explained, continuing, "Besides, the current economic situations are far from optimistic, and the financial conditions of many corporations could deteriorate rapidly in the second half." It is in this context that the financial authorities have worked on measures to protect corporate bonds and commercial paper investors since the scandal. 

Market Capitalization Loss

Top 10 Conglomerates in Korea Lost 16 Trillion Won in Market Capitalization

It has been found that the 92 subsidiaries of the top 10 business groups in Korea lost market capitalization of 16 trillion won (US\$15.8 billion) during the first half of this year. In particular, the Samsung Group's loss alone amounted to over 8 trillion won (US\$7.9 billion), while each of the Hyundai Heavy Industries, Lotte, POSCO, and Hanwha Groups lost more than 2 trillion won (US\$1.97 billion). Meanwhile, the SK and LG Groups' market caps increased by over 2 trillion won (US\$1.97 billion) each.

Financial information provider FnGuide announced on June 30 that the total aggregate market value of the 92 companies affiliated with the 10 conglomerates was 677.5484 trillion won (US\$669.5398 billion) as of that day, 18.4917 trillion won (US\$18.2726 billion) less than six months ago. The Korea Composite Stock Price Index (KOSPI) fell 0.45 percent, from 2,011.34 points, during the same period.

The market cap of the Samsung Group declined 2.84 percent from 294.1538 trillion won (US\$290.6681 billion) to 285.8143 trillion won (US\$282.4274 billion). Samsung Heavy Industries' plummeted by 28.91 percent, or 2.5396 trillion won (US\$2.5096 billion), due to the deteriorating conditions in the shipbuilding industry. Samsung Electro-Mechanics' and Cheil Industries' fell 20.14 percent and 20.68 percent as well, respectively. The aggregate market value of Cheil Worldwide decreased by 17.09 percent from 3.1636 trillion won (US\$3.1261 billion) to 2.6229 trillion won (US\$2.5919 billion) while Samsung Fine Chemicals (-7.63 percent), Samsung Electronics (-3.64 percent), Samsung Techwin (-2.57 percent), and Samsung Life Insurance (-1.92 percent) showed negative growth, too.



Stacks of South Korean won for delivery to commercial banks at the Bank of Korea's headquarters in Seoul.

That of Hyundai Heavy Industries Group declined from 23.8824 trillion won (US\$23.5994 billion) to 17.1691 trillion won (US\$16.9656 billion) during the same period due to the same reason. Hyundai Heavy Industries lost 31.13 percent from 1.9532 trillion won (US\$1.9295 billion) to 1.3452 trillion won (US\$1.3293 billion), and Hyundai Mipo Dockyard and Hyundai Corporation lost 17.70 percent and 0.42 percent, respectively.

The POSCO Group (declined by 2.6233 trillion won or US\$2.5914 billion), Hanwha Group (2.4202 trillion won, US\$2.3916 billion), Hyundai Motor Group (1.5621 trillion won, US\$1.5436 billion), and GS Group (1.3207 trillion won, US\$1.3050 billion) showed the same movement. The Hanjin Group's market capitalization decreased from 4.0834 trillion won (US\$4.0350 billion) to 4.0613 trillion won (US\$4.0131 billion) in the first half.

In contrast, those of the SK and LG

Groups increased by 9.1804 trillion won (US\$9.0716 billion) and 2.5486 trillion won (US\$2.5183 billion). SK Hynix's jumped 31.93 percent from 26.1353 trillion won (US\$25.8183 billion) to 34.5801 trillion won (US\$34.1703 billion) thanks to the DRAM undersupply. SK Network's market cap went up 42.20 percent from 1.8762 trillion won (US\$1.8540 billion) to 2.6680 trillion won (US\$2.6364 billion).

In the LG Group, LG Innotek and LG Display benefited from the release of the G3 smartphone of LG Electronics. Particularly, LG Innotek's aggregate market value skyrocketed by 73.24 percent, from 1.9809 trillion won (US\$1.9574 billion) to 3.4317 trillion won (US\$3.3910 billion). That of LG Display, which is expected to benefit from the release of Apple's iPhone 6 in the latter half of the year, increased by 25.44 percent from 9.0706 trillion won (US\$8.9634 billion) to 11.3785 trillion won (US\$11.2405 billion). B

Fund Shifts

ETFs Absorbing Funds from Equity Fund Market



Funds are flowing into the ETF market as global fund management companies such as Fidelity, Amundi, and BlackRock are lowering the fees. Meanwhile, the equity fund market is losing its appeal these days.


In 2012, a total of US\$30.4 billion flowed into the global ETF market, and the amount is US\$154 billion when bond ETFs are included. US\$120 billion escaped from the equity fund market during the same period.

The pace of the capital inflow into the European ETF market is especially fast with competition going on in earnest. The amount was US\$19.6 billion in 2013 and US\$29.3 billion in the first quarter of 2014 alone.

BlackRock, the largest ETF management company in Europe, announced last month that it lowered the total expense ratio (TER) of six ETFs to 5 to 28 bp and released new emerging market ETFs at 25 bp. Fidelity Worldwide Investment cut its index equity fund fee in Britain in May, too.

In the United States, the race started much earlier than in the European market. Vanguard increased its share in the U.S. market to 18.2 percent through a fee cut as of the end of February 2013, dragging down the market share of BlackRock iShare by seven percentage points to 41.2 percent in three years.

Online stock firm Charles Schwab, which entered the ETF market in 2012, provided the lowest fee rate in the market, 0.04 percent, gaining much attention.

The same trend is witnessed in the Korean market as well. The equity fund amount decreased from 140.2 trillion won (US\$135.8 billion) to 85.5 trillion won (US\$82.8 billion) between 2008 and 2013, whereas that of ETFs skyrocketed from 400 billion won (US\$388 million) to 19.4 trillion won (US\$18.8 billion) during the past 10 years. 

Trying Times

Securities Industry Still in Midst of Restructuring


The restructuring of the securities industry is showing no signs of easing in the second half. Over 1,000 employees in the industry left the sector in the first half of this year, and manpower and branch reductions are expected to be ongoing during the rest of 2014.

Samsung Securities, Daishin Securities, Woori Investment & Securities, and Hana Daetoo Securities have had a large number of their employees retire by June. More than 300 left the industry from Samsung Securities, and the number reached 140 in Hana Daetoo Securities, which is equivalent to 8 percent of the entire staff. The number amounted to 300 and 196 in Woori Investment & Securities and NH Investment & Securities, respectively. Daishin Securities had its first voluntary resignation last month, to let go of 300 workers. Additional layoffs are anticipated in the second half, too.

Branch shutdown and consolida-



tion are expected to accelerate as well. According to the Korea Financial Investment Association, the number of employees in the securities sector fell from 44,055 to 40,243 between the end of 2011 and the end of 2013, and further declined to 39,146 this year. The number of branches decreased from 1,856 to 1,527 between 2011 and this year, as well.

“The possibility of restructuring has been raised in all of the securities companies in Korea,” said an industry source, adding, “They are also working on channels to take the place of offline branches, which means branch reduction will pick up speed down the road.” 

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Safety in Construction

"The Second Lotte World" Committed to Safety as Priority One



"The Second Lotte World" Tower under construction in the Jamsil area, Songpa-gu, Seoul includes the integration of the most advanced technologies into what will be the tallest tower in Korea

The second Lotte World has planned floor area of 87,182 m² (26,373 pyeong) and gross area of 807,508 m² (244,271 pyeong). The gross area of Lotte World Tower is only 328,350.74 m² (99,326.1 pyeong), so it is easy to see that the new tower proudly presents at an enormous scale.

The Second Lotte World construction site where Lotte World Tower and Lotte World Mall, the biggest shopping mall in Korea, will be built requires the daily labor of 8,000 people.

Its builder, Lotte E&C, has planned six safely measures to avoid accidents from falling objects during the construction of Lotte World Tower.

Lotte E&C first started a "Protection Screen System" to prevent materials and equipment from falling, and the potential resulting accidents. This system consists of light-gauge metal that can prevent objects from dropping, through which 30 percent of light and wind is passed, while it endures a maximum wind speed of 60 m/s.

Furthermore, in order to enhance the safety of the auto form system, a foreign professional supervisor from DOKA, the supplier, checks and controls the system on-site. Lotte E&C also installed 35 kinds of safety facilities, including vertical protective nets, to guarantee the safety of workers as well as to prevent falling objects and dust. An additional "protection deck" has been built to protect buildings adjacent to Lotte World Tower just in case objects make it even through the other barriers.

Moreover, 6 m safety fences, higher than the legal standard, have been installed around the construction site, and hazard warning sensors have been installed on the tower crane so that an alarm sounds as soon as the crane boom deviates from its designated safety zone.

Lotte World Tower, currently under construction, has secured a satisfactory safe distance around the construction, as streets and roads nearby are 80-95 m away from the construction site. In comparison, the construction site of the One World Trade Center of New York is only 15 to 27 m away from the surrounding roads. Shanghai Tower, 632 m high (128 stories), has a minimum distance of 30 and maximum 632 m from the surrounding sidewalks.


The legal inspection criteria for heavy machinery is once

every six months, but the Lotte World Tower site is inspected once a month by third-party inspectors.

Shin Dong-bin, chairman of the Lotte Group, emphasized when he visited the Lotte World Tower construction site on May 11, "Safety should be the number one priority for any decision-making on the site." He put safety as the top priority and requested to maintain an accident-free site.

In particular, fire precautions are outstanding. At Lotte World Tower and the Lotte World Mall in Jamsil, more than 160,000 sprinklers and 30,000 fire detectors will be installed to thoroughly prepare for any fire accidents. A 60 minute long water supply, three times longer than the ordinary building standard of 20 minutes, will be installed in case of any fire. Sprinklers will work through emergency power generators even during a blackout.

Lotte World Tower is designed so that, in case of fire, people could evacuate to safety zones within a maximum of 15 minutes by installing five safety zones on each of a total of 20 stories. People could quickly evacuate by moving to such safety zones through escape elevators, which are safe even in case of fire, or special fire escape stairs.

The Lotte World Tower site is too high for the city's fire engines to reach, so the company has created its own fire extinguishing system. The building has its own fire engines under operation at the site, and within one minute workers can access one of over 10,000 fire extinguishers installed all over the site. Fire protectors, engine pump sprays, and moving sprinkler trucks are also in place for fast initial reactions, which is not the norm for construction sites. 



Shin Dong-bin, chairman of the Lotte Group, emphasized, "Safety should be the number one priority for any decision-making on the site" when he visited the Lotte World Tower construction site on May 11.

Samsung SDI-BMW Cooperation

Samsung SDI to Expand Supply of Electric Vehicle Batteries to BMW Group



From left, Rolf Mafael, German ambassador to Korea, Klaus Draeger, President of BMW Group Purchasing Division, Park Sang-jin, CEO of Samsung SDI, and Yoon Sang-jik, Minister of Trade, Industry and Energy take a commemorative photograph after signing an MOU on the expansion of supplying electric vehicle battery cells at the BMW Driving Center in Yeongjong-do, Incheon, on July 14.

Samsung SDI signed an MOU with the BMW Group to expand the supply of electric vehicle battery cells at the BMW Driving Center in Yeongjong-do, Incheon on July 14.

Samsung SDI and the BMW Group agreed to increase the supply of battery cells following the increasing demand of electric vehicles, and to enhance cooperation for joint development of future material-related technology and global business opportunities, through this MOU.


Samsung SDI will supply BMW Group battery cells for the BMW i3, BMW i8, and other new hybrid models for the next few years.

The BMW Group has been sourcing lithium batteries for the i3 and i8 since 2009, when its partnership with SDI started. The BMW Group continues to maintain cooperation with Samsung SDI, emphasizing electrification strategies with the successful launching of BMW i as a sub-brand. In fact, the BMW i3 has been very popular worldwide since its first release, and the BMW i8 has higher demand than planned production as well.

Park Sang-jin, CEO of Samsung SDI, said, "The BMW i3 and i8 are successful cases of cooperation. The following BMW models will also be equipped with the advanced lithium battery technology of Samsung SDI. This proves the future

technology and mass production capabilities of Samsung SDI. An expansion of a partnership through this MOU will be great foundations for both companies to dominate future electric vehicle technology."

Klaus Draeger, president of the BMW Group Purchasing Division, said, "Partnership with Samsung SDI is a very successful Korea-Germany cooperation on innovative technology. Batteries are the essential component of electric vehicles, as they fundamentally determine the driving distances and qualities of automobiles. This is why we chose Samsung SDI as a supplier, as Samsung SDI could provide the best practical technology based on their specialty in batteries."

On the other hand, Yoon Sang-jik, the Minister of Trade, Industry and Energy attending the MOU ceremony on that day, said, "Great synergy will be created out of the partnership between Samsung SDI, the best battery producer representing Korea, and the BMW Group, the premium automobile company in Germany. Joint growth of medium and small-sized companies is also expected. The Korean government will make the best efforts to support this partnership so that this could be the opportunity for companies in Korea and Germany to enhance cooperation in other industries as well." 

Pushing Forward Overseas

LS Group to Find New Growth Drivers Overseas

The LS Group plans to expand overseas businesses and explore new business opportunities based on its technological competitiveness and strong human resources. Chairman Goo Ja-yeol strongly ordered, "Existing domestic businesses have limits for long-term growth. We need to actively penetrate overseas markets and find new business opportunities."

As a part of this plan, Chairman Goo participated in the economic delegations of President Park Geun-hye to India, Europe, and Central Asia early this year. He met major global business people around the world, and explored cooperative opportunities. He also visited Germany, Brazil, Chile, and the U.S. by himself to pioneer those overseas markets.

First, he visited a German office of Superior Essex, the largest electric wire company in North America that LS acquired in 2008 along with the LS Mtron tractor manufacturing facility in Brazil. He looked around the business fields and encouraged employees there. He also met business partners in global mining and smelting, and established strong cooperative relationships with them during his visit to CESCO Week in Chile.

In addition, he held "LS Partnership Day" in Silicon Valley, and introduced the technologies and capabilities of LS to local investment companies, entrepreneurs, and researchers.

On that day, Chairman Goo said, "The Next Big Challenge of the LS Group is to create and lead a new paradigm in the energy efficiency businesses. I expect to learn about the advanced R&D capabilities and innovation cases of Silicon Valley, and strengthen the future business partnerships through LS Partnership Day."

Furthermore, as one of the eco-



Goo Ja-yeol, Chairman of LS Group and U. Rozukulov, Vice Prime Minister of Uzbekistan and the Administrator of Uzbek Agency of Automobile and River Transport, sign an agreement on strategic cooperation for mutual businesses of LG Group in Tashkent, the capital city of Uzbekistan.

nomics delegations of President Park, he induced a strategic business cooperation agreement between the Uzbek Agency of Automobile and River Transport and LS Group for tractor supplies, electricity and communication infrastructure, automobile components, and industrial materials. He achieved very practical advancements for the company during his visit.

In order to accelerate overseas expansions, LS Group is investing US\$800 to 900 billion in key facilities and R&D, and diversifying the hiring and training programs of its human resources.


Major affiliate companies of LS Group are also expanding their business ranges in Europe, Africa, Central and South America, and Central Asia, based on their technologies approved in existing markets of the Middle East and Southeast Asia.

LS Cable & System is rapidly targeting emerging markets, including Africa and South America, as well as European markets with its technology and high valued products such as submarine cables, extra high voltage cables, and HVDC. Following France, Denmark, and the Netherlands in 2013, LS C&S has recently won project orders from Italy. The technology of LS C&S

is accepted in Europe, the world's main electricity and power market.

LSIS recorded US\$5 billion revenue in Africa for the past three years, after actively targeting the power infrastructure market including smart grids. Moreover, its exports exceeded 40 percent of total revenue by diversifying its exporting countries from Southeast Asia to Europe, America, CIS, Russia, and Japan. On Trade Day last year, LSIS was awarded with a US\$5 billion export tower.

LS-Nikko Copper has recently signed an agreement for the construction and operation of a precious metal collection facility, and established a joint company with Codelco, the biggest copper producer in the world, in Santiago, Chile. This will be the foundation to enhance its global competitiveness in smelting and mining businesses worldwide.

LS Mtron concluded a contract to supply 34,000 tractors with Case and New Holland Industrial (CNHI), the number two global agricultural machinery company, last January. LS Mtron also signed a deal to supply 25,000 tractors with ASI of Uzbekistan. A bridgehead for LS Mtron to expand to North America, Europe, and Central Asia has now been established. 

New Medicine Development

Dong-A Socio Holdings Starts a Plan for Biosimilar Medicines



Dong-A Socio Holdings had an opening ceremony on May 30 for a DM Bio plant dedicated to manufacturing biosimilar medicines and medical supplies at the Songdo District of Incheon Free Economic Zone.

DM Bio plant is a cGMP factory for manufacturing biopharmaceuticals that meet global standards. It is constructed in the Songdo District of Incheon Free Economic Zone under a comprehensive strategic alliance between Dong-A Socio Holdings and Meiji Seika Pharma to begin the biosimilar business.

The site is 44,000 pyeong (145,455 m²) with a gross area of 6,580 pyeong (21,752 m²). It has three floors above the ground and one floor under the ground for manufacturing, wastewater treatment facilities, hazardous material storage, and a guard room in the second basement. It also has a facility for manufacturing pharmaceutical ingredients through animal cell culturing and purification, and is on its way to building a facility for aseptic filling and packaging so that the finished products can be administered to patients.

Both companies are planning to produce the jointly-developed biosimilar drugs at DM Bio plant to enter both the Korean and Japanese markets. The first product is a biosimilar of breast

cancer drug Herceptin, which is to be released in 2018. Herceptin is a large-scale biopharmaceutical with a global market of approximately 7 trillion won (US\$6.88 billion) and worth 300 billion won (US\$295 million) in the Japanese market this year.

After Herceptin, both companies are starting biosimilar development for Humira and Enbrel, a pharmaceutical for rheumatoid arthritis treatments. They are planning to expand their biosimilar business gradually through experience in bio-pharmaceutical development and global market, and the use of their strong global network. Since the regulatory approval of medicines differs by country, requiring customized clinical tests for overseas expansion, Korea and Japan will be the first target market, and the expansion to Europe and the U.S. will be the next step.

Chairman Gang Shin-ho said, "Unlike compound pharmaceuticals, bio-pharmaceuticals require high technology and expertise in the field, and the production infrastructure is crucial to manufacturing this type of pharmaceuticals." He went on to say, "I hope the completion of DM Bio plant becomes the chance that stimulates communication, cooperation, and exchange of technology between Dong-A and Meiji so

that we become the leaders in world's bio market."

In the meantime, Dong-A ST's new drug Sivextro (tedizolid phosphate) was recently approved by the U.S. Food and Drug Administration (FDA) after 11 years of development. This is the second drug developed in South Korea to be approved by the U.S. FDA after 2003 with LG Life Sciences' "Factive."

Dong-A ST received funding for pre-clinical studies as a part of its R&D



projects for the Korean government, and finished them in 2006. In Jan. 2007, Dong-A ST entered a global licensing agreement with U.S.-based Trius Therapeutics and proceeded with clinical development in the U.S. and other countries.

The FDA's Antibiotic Drug Advisory Committee (ADAC) unanimously upheld the permit this March. Last December, Sivextro passed the FDA's preliminary examination, and it took only six months to be approved.

The European Medicines Agency (EMA) also completed a preliminary examination for sales approval this February, and the evaluation is expected to be completed in 2015. Since the EMA is conducting three worldwide clinical tests on the effectiveness of the drug not only for treating ABSSSI but also hospital-acquired pneumonia and ventilator-associated pneumonia, the treatment range for the drug may expand.

Every year, 80,000 people in the U.S. are infected with MRSA, and more than 11,000 die from it. According to Global Data, a market research firm in the UK, the MRSA market in 2011 was estimated at about 2.7 trillion won (US\$2.66 billion). In 2019, the market is expected to grow to about 3.5 trillion won (US\$3.45 billion). **BR**



A rollable TV, just like paper, will be available soon.

LG Display announced that they have developed transparent 18 in. flexible OLED technology. Two technologies were introduced at the “national projects of transparent flexible display development workshop” held on July 10 and 11.

The development of flexible and transparent OLED displays is very significant in that large-sized transparent flexible screens can now be further developed. These are the first two technologies that could actually commercialize rolled TVs or window TVs that have appeared in science fiction movies like *Minority Report*, *Avatar*, and *Back to the Future II*.

The flexible OLEDs developed by LG Display are the largest OLEDs in the world now at 18 inches and HD quality resolution (1200x810 pixels). The maximum OLED size before this was 6 inches. The maximum radius of curvature is 30R, or a 30 mm radius circle, mean-

ing that rolling the screen into a circle is physically possible without harming the display. An official at LG Display explained, “Overcoming the 10-inch limit was the biggest task in the OLED industry. As we succeeded in developing 18-inch OLEDs, a rollable TV bigger than 50 inches will be feasible in the near future.”


LG Display emphasized that they minimized the thickness and greatly enhanced the flexibility by using polyimide film, a high molecular substance, on thin film transistor (TFT) circuits so that they could realize the maximum radius of curvature for the 18-inch screen.

LG Display was also successful in developing transparent OLEDs with the same size and resolution as flexible LEDs. More than 30 percent transparency has been realized in this transparent OLED with LG Display’s own transparent resolution design technology. This is remarkable progress, as the transparency of current LCD-based transparent dis-

plays is about 10 percent.

LG Display perfected these transparent displays by drastically lowering the haziness caused by circuit elements and films to 2 percent.

Transparent flexible displays (TFDs) are a national project of developing leading technologies for future businesses to create new markets, led by the Ministry of Trade, Industry and Energy and the Korea Evaluation of Industrial Technology. A total of 36 business and academic institutions participated in this joint research. This project aims to develop 60-inch transparent and flexible displays by 2017.

Kang In-byung, senior vice president of LG Display R&D Center, who manages the overall processes of the national project, confidently said, “There are many challenging tasks left, but we will succeed in developing transparent flexible displays bigger than 60 inches with UHD quality resolution, transparency higher than 40 percent and 100R radius of curvature.” 



OLED TV Strategies

Tripartite Movements of Korea, China, Japan in OLED TV Market

Three different approaches by Korea, China, and Japan towards the technology of Organic Light Emitting Diode (OLED) TVs are being spotlighted.

In Korea, two market leaders, Samsung and LG, are competing fiercely with each other. In China, market followers including Skyworth, Konka, and Changhong are cooperating to chase a market leader with OLED TV. In Japan, Sony is considering re-manufacturing. All three countries have different approaches to OLED TV.

In another perspective, while LG is trying to support their OLED TVs based on Chinese customers, Samsung and Sony, once allies in past, are stepping behind. Different companies and countries have different views on when to start OLED TV.

Yoon Boo-geun, CEO of Samsung Electronics' Consumer Electronics (CE) unit, came back to Korea on July 12 after a business trip to Africa. He said at the following press interview, "Although we are continuously developing OLED TV, there is no specific plan for additional releases." He denied a rumor that Samsung Electronics will release a new OLED TV. DisplaySearch, a market

research company, previously disclosed a report saying that Samsung Electronics will release their new OLED TV this coming August, which attracted many eyes in the industry. On July 8, Park Dong-gun, CEO of Samsung Display, emphasized that the OLED TV market is premature, targeting LG, which focuses on OLED TVs.

Since 2009, both Samsung Electronics and LG Electronics made massive investments in infrastructure and R&D for OLED TVs, trying to lead the market. Both companies introduced 55 inch curved OLED TVs last year. However, Samsung practically stopped their investment and marketing in OLED TVs due to their low yield and high price, turning back to conservative movements. Now, two companies have totally different postures in OLED TVs.

LG is very aggressive in the OLED TV market based on LG Display and LG Electronics. LG lowered the price of its 55 inch curved OLED TV to 5 million won (US\$4,907) from 15 million won (US\$14,719) in a year. This is quite similar to their 55 inch curved Ultra High Definition TV priced at 4.2 to 5.7 million won (US\$4,121 to US\$5,593).

The production yield of LG seemed to improve greatly, as the price of Samsung's 55 inch curved OLED TV dropped only to 9.9 million won (US\$9,716) from 15 million won (US\$14,719).

While the two rivals in Korea have chosen two different paths, TV set companies are entering the OLED TV market in China.

Middle-ranked (number four to five) Chinese TV makers such as Skyworth, Konka, and Changhong have recently introduced a 55-inch curved OLED TV with LG Display OLED panels. They aggressively chose OLED TVs to chase the leading companies. However, their products are not actually easy to find in stores. These Chinese OLED TVs cost around 8 million won (US\$7,850), more like advertising products.

Samsung CEO Yoon said, "As Chinese companies and Samsung Electronics target different market segments, we are not concerned." This is interpreted in that Samsung will continue to maintain a differentiated market strategy through high specifications and high-quality premium products.

In Japan's case, Sony is considering to start manufacturing OLED TVs again. Ubi Research, a market research company, disclosed a report last May saying that Sony will restart the OLED TV business in 2015. The recent actions of Sony seemed to support this assumption. Sony is under negotiations with LG Display to source big OLED panels, although nothing has been specified yet. Sony is the global market leader, who first released 11 inch OLED TVs in 2007. Even though Sony stopped producing and selling OLED TVs in 2010 due to poor sales, the company continued to come back to the market until the joint R&D project for OLED TVs with Panasonic foundered.

An industry source said, "Conflicts are in Korea, quick steps in China, and scaling in Japan for the OLED TV market. All of them are worried to be left behind in future competition, but profitability relative to costs is not guaranteed right now." BK

Global Top 10

Nine Industries Include Korea's Major Companies in Top Ten of Sales

Nine different global industries include Korean companies in the top ten.

Samsung Electronics leads the industry with its mobile devices, semiconductors, and home appliances, while Hyundai Motors and Hyundai Mobis ranked tenth in vehicles and vehicle parts.

According to CEO Score on June 22, the sales results of major worldwide companies in 22 industries showed Korean companies ranking within the top ten in nine industries including IT, vehicles, steel, shipbuilding, machinery, shipping, and communications.

Korean companies that ranked in first place were home appliances and shipbuilding industries. Samsung Electronics and LG Electronics respectively ranked first and second in the world with sales of appliances such as TV, monitors, and other domestic appliances.

Last year, Samsung Electronics outranked Sony (US\$16.4 billion, 3rd place) with a US\$48.2 billion sales record, ranking the world's best in electronic appliances. LG Electronics also topped as the second best beating Toshiba (US\$12.5 billion), and Panasonic (US\$11.4 billion) with a total sale of US\$36 billion.

Samsung Electronics and LG Electronics also showed roughly 3 percent in sales interest, showing a strong comparison against the sales loss of Japanese companies like Sony and Toshiba.

Hyundai Heavy Industries and five other Korean shipbuilding companies also scored in the top ten. Hyundai Heavy Industries in itself topped the industry by US\$61.9 billion in sales, and Daewoo Shipping & Marine (US\$14.6 billion), Samsung Heavy Industries (US\$14.2 billion), and Hyundai Mipo Dockyard (US\$3.8 billion) landed third to fifth in ranking.

STX Offshore & Shipbuilding (US\$3.2 billion) and Hanjin Heavy Industries & Construction (US\$2.4 billion) lined up respectively as seventh and eighth. Japan's Mitsubishi and Mitsui Engineering & Shipbuilding took second and sixth in ranking, respectively.

The mobile device, semiconductor, and steel industries saw Korean companies just barely in second place, narrowly miss-



ing first.

Samsung Electronics achieved sales of US\$132.8 billion in mobile and US\$35.8 billion in semiconductors, closely approaching Apple

(US\$171 billion) and Intel (US\$52.7 billion).

In the steel industry, POSCO (US\$59.2 billion) won second place after Luxemburg's Arcelormittal (US\$79.4 billion). Despite POSCO's sales slump, the share of sales increased 4 percent (75 percent from 71 percent), a higher rate compared to the Arcelormittal.

Fully-built vehicles, vehicle parts, shipping, and the communication industry observed major roles by Korean companies as well.

Hyundai Mobis (US\$32.7 billion) won sixth place, increasing sales by 11 percent compared to last year. Its profits closed the gap with top-ranking Robert Bosch's 72 percent.

The vehicle industry saw Hyundai Kia Motors in fifth place for sales, but tenth place in cars alone. In shipping and communications, Hanjin recorded seventh with US\$9.9 billion, and KT tenth with US\$22.8 billion.

In petrochemicals, SK Innovation ranked 13th (US\$63.8 billion), the best record among Korean companies, followed by GS Caltex Corporation at 16th (US\$43.7 billion), S-Oil at 19th (US\$29.8 billion), and LG Chem at 20th (US\$22.1 billion).

However, Korea lagged behind other leading global companies in cosmetics, distribution, pharmaceuticals, and Internet industry.

Amore Pacific alone scored fairly well, ending up 13th with US\$3 billion, although the sales figures scored ten times below the industry's leader, L'oreal.

Lotte Shopping (US\$27 billion) did not appear on the list, as the sales scored only 5.7 percent of Walmart's. Even Korea's leading pharmaceutical company, Yuhan Corporation (US\$900 million), only got 1.6 percent of the global leader of the industry.

Naver, which dominates the domestic internet industry, also made only 3.7 percent of Google's sales. Korean companies barely showed a presence in other industries such as construction, defense, aerospace, liquor, and fashion. 

Telecommunications

Reform of Competitive System

The Korean government is working to establish mid to long term policies for telecommunications, seven years after its last attempt. The government has been criticized by a lack of vision in the mid-long term, because Seoul has been focusing on only short term policies to deal with mobile phone subsidies and to reduce telecommunications expenses.

According to industry sources on July 17, the Ministry of Science, ICT and Future Planning (MSIP) is working to come up with a road map for mid-long term policies for telecommunications, in line with the inauguration of the agency's new minister.

This is the first time for the MSIP to make a new plan after 2007. The new road map is expected to have widespread ramifications in the telecommunications market, given that this measure


is the first move taken by the ministry after the inauguration of Choi Yang-hee, who is widely regarded as an expert in the ICT sector, as the new minister of the MSIP.

To create the road map, the MSIP organized a research team composed of ten experts working in the telecommunications industry, academic circles and government-affiliated institutes.

The road map has four objectives. It is aimed at reorganizing the competing systems of the telecommunications market, bringing about a paradigm shift in regulations, creating the opportunity for new growth, and creating the ecosystem consisting of content, platforms,

networks, and mobile devices.

One of the main points of the measure is to reorganize the competing systems of the telecommunications market. The government agency is willing to change the current market conditions in which three mobile carriers which dominate the market fiercely compete with each other for illegal subsidies.

To secure the future growth engine, the MSIP is going to pursue telecommunications policy in a way that the telecommunications businesses based on a billing system oriented to voice and messages can be enhanced to accommodate innovative services like the Internet of Things. 



Energy

Blueprint of Energy Industry

The Korean government proposed a blueprint to explore six new energy businesses and create a 2.08 billion won (US\$2.01 million) market by 2017, along with more than 10,200 related new jobs.

The Ministry of Trade, Industry and Energy announced a plan to discover six new energy businesses and develop them to become future industries, together with business individuals, at the 11th Presidential Advisory Council on Science and Technology on July 17. The six businesses are electric power demand management, integrated energy control services, independent micro-grids, solar cell rental, electric vehicles and charging, and thermal effluent businesses.

Electric power demand management invests in power-saving facilities in buildings or plants, and creates profits by bidding on the demand-shrinking


amount and price in the power market, with a small amount of electricity saved, when the demand-shrinking price is lower than the power-generating cost. In this business model, only 30 percent participation is allocated to big corporations, and access to power consumption data owned by the Korea Electric Power Corporation (KEPCO) is guaranteed. Later on, business participants will be included in an Energy Service Company (ESCO), receive government subsidies on national policy projects, and expand abroad supported by the government.

Integrated energy control services will install Energy Storage Systems (ESSs) and Energy Management Systems (EMSs) individually for high-energy consumers, and provide wide-ranging services from investment consulting in power saving facilities to after-care.

Independent micro-grid businesses



replace diesel power generators in island areas which have a high cost of power generation with "new and renewable + ESS" converged micro-grids. The costs of running diesel power generators in the long term will be invested in new and renewable energy and ESS preemptively, and economic feasibility which enables private companies to participate will be guaranteed.

Solar cell rental businesses install solar cell systems in households using more than 350kwh of electricity per month, lowers the costs, and receives rental fees and production certificate prices from those households. Most importantly, solar cell rentals will be easy and convenient for households just like water purifier rental services. 

IT Giants' Tax Evasion**Google, Apple Dodging Payment of Surtax Worth 200 Billion Won Each Year**

Tax avoidance

The Korean government is proceeding with a plan to institute a new 10 percent surtax on global companies like Google and Apple for sales reported in the nation through overseas mobile application markets. Local credit card companies are more likely to pay first and charge the surtax later.

According to sources in the financial industry on June 25, the Ministry of Strategy and Finance (MOSF), the credit Finance Association of Korea, and the credit card industry recently held a closed-door meeting to discuss a measure to collect a 10 percent surtax on mobile applications through local credit card companies. Participants talked about a way to levy a surtax on products and services traded in mobile application markets abroad such as the Google Play Store and Apple's App Store.

Based on the results of the meeting, the government is planning to create a legal basis that requires Seoul to be informed about the domestic sales of mobile applications via overseas app markets and the details of the payments.

Currently, it is not possible to impose a surtax on the Google Play Store or Apple's App Store, since companies based in Korea are only required to pay a surtax. In contrast, local companies that develop and provide apps to local app markets like the T Store and KakaoTalk have been paying a 10 percent surtax since June 2010. Therefore, the issue of fairness has consistently been raised. The amount of the surtax applicable to the Google Play Store and Apple's App Store is estimated at 200 billion won (US\$197 million) in total per year.

The government is reportedly working to have credit card companies pay the surtax first, in that a large number of people use credit cards to purchase apps. Specifically, Seoul is planning to create a new clause on providing the necessary information for third-party proxy payments. After establishing a legal basis in which app providers in other countries are obliged to provide the necessary information to credit card companies or

banks acting as proxies, the government is going to request Google and Apple to hand over related information. Seoul is scheduled to push forward with a tax-code revision during the latter half of this year.

The credit card industry believes that if a legal base that allows them to get access to information about Google's and Apple's sales is established, the government's proxy payment plan is acceptable. An industry source said, "There is no reason why we should object to the plan once related laws are created." The source added, "Since credit cards are often used in the payment of apps, we are discussing a payment method with the MOSF where credit card companies pay a surtax on apps first, and charge the amount to overseas platform providers later."

The government began to levy a surtax on local app developers in 2010, but was unsuccessful in its attempt to do the same to business operators based in other countries. In particular, the National Tax Service tried to find a way through mobile carriers, but failed to implement its plan last year due to the MOSF's opposition to authoritative interpretations.

Experts couldn't solve the problem, either. It is largely attributable to Google's and Apple's failure to cooperate and a lack of government willingness to address the issue. It was not easy to estimate the businesses size of platform providers abroad, unless provided with information. Moreover, relevant government agencies could not agree on which tax law should be revised. These are the reasons why the government was not able to come up with a solution.

According to Google Korea on June 25, a surtax is already included in the price of apps in 29 nations. In 28 out of 140 countries, developers that sell apps through Google Play are obligated to pay the tax. Other countries like Japan, the UK, and Germany are collecting taxes by revising tax codes related to IT businesses, but Korea has been unsuccessful in finding the way to solve the problem for several years. ^{BR}



Controversy of Reverse Crimination

Subsidiaries of Foreign Companies Exempt from Being Regulated as LLC

Most of the foreign software companies in the nation were excluded from this year's study on software companies, because they did not disclose information as limited liability companies. Limited liability companies are not required to announce their performance results, or to hire external auditors to verify their accounts. Thus, the exemption has ignited controversy over fairness between local and foreign software companies in the country.

On July 3, the Korea Software Industry Association (KOSA) announced the results of its study on software companies with sales of more than 100 billion won (US\$98 million). IBM Korea was the only foreign firm to be included, while other major companies like Oracle Korea, Microsoft Korea, SAS Korea, and Adobe Korea were excluded from this year's study.

According to last year's study, Oracle Korea, with 1,070 employees, turned over 703.923 billion won (US\$695.919 million) in 2013. Microsoft Korea, with 480 workers, recorded 600.817 billion won (US\$593.991 million) in sales.

In response, an official at KOSA remarked, "We were able to get data of some foreign-based software companies last year, because some information was made public. And information reported to credit rating agencies was also available." The official added, "But there was no way to get access to the data this year, since foreign software companies blocked related information." The KOSA explained that foreign software firms refused to disclose information on sales and their workforce.

Local firms argue that the fact that foreign software companies are not obliged to release information is reverse discrimination. In general, local companies are changed into limited liability companies to grow further when the size of the business reaches a certain level. However, foreign-based companies do not need to be switched into limited liability companies, as they are engaged in the business just the way the parent company overseas does.

An industry source said, "The software industry is not alone in controversy over limited liability companies. Foreign companies like Google, Facebook, or other firms headquartered


in foreign countries are also caught up in controversy." He said, "To address the problem, the introduction of an external auditing system of limited liability companies with a certain level of assets is believed to be necessary.

Foreign Large Firms Remain Allowed to Participate in Public IT Projects

Meanwhile, foreign large firms' participation in tenders for public informatization projects will remain possible even after the Special Act on Medium Enterprises is put in place on July 22. The controversy surrounding reverse discrimination is expected to be ongoing.

According to the act, a Korean subsidiary where a foreign corporation with total assets of 5 trillion won (US\$4.9 billion) or more owns at least 30 percent of the shares is excluded from the category of medium enterprises. IBM Korea, HP Korea, Intel Korea and the like are expected to benefit now.

The Korean large businesses subject to cross shareholding restrictions cannot join public IT projects according to the Software Industry Promotion Act revised last year. Under the circumstances, Korean companies paid much attention to whether or not their foreign counterparts to be excluded from the category are subject to the same regulations. However, the Small and Medium Business Administration (SMBA) and the Ministry of Science, ICT and Future Planning said on July 9 that such subsidiaries of foreign enterprises like IBM Korea would not be governed by the Software Industry Promotion Act.

At present, companies subject to cross shareholding restrictions cannot participate in public IT projects, but big businesses with sales of over 800 billion won (US\$790 million) can join projects worth at least 8 billion won (US\$7.9 million), unless they are banned from cross investment. This implies that the foreign subsidiaries in question can join public IT projects worth over 8 billion won (US\$7.9 million) as they could in the past, which, in turn, will make the reverse discrimination issue permanent. 

China Risk

Korean IT Industry Suffering Unilateral Breaches of Contract in China



Pample, a Korean mobile game company, made a contract with Tencent of China last July to launch the game “Devil Maker” in China. However, Pample was recently notified that Tencent suddenly canceled the deal. While localization of game was being processed, the contract has been canceled with no clear reason.

Another medium-sized game company Wemade Entertainment concluded a deal with Tencent regarding release of the mobile game “A Wolf Who Swallowed the Moon” in China in June last year. Tencent canceled this deal as well, even after unofficial testing was completed in China. The cost of the contract breach was solely transferred to Wemade Entertainment.

An official in the IT industry said, “Tencent, with a huge Chinese domestic market behind its back, has become a superpower to Korean game companies. Although Tencent nominally claims that strict localization and verification of games are necessary, the Chinese government and companies are in fact trying to protect their local industry against Korean IT companies.”

As the scope of economic cooperation between Korea and China is expanding, the Korean IT industry is suffering from China risk more often. It is true that Korean companies need to penetrate mainland China, but the barrier to entry is getting more difficult, due to the protective actions of Chinese government and major IT companies. Recently, the Chinese government actually turned the so-called “Great Fire Wall” on for Korean IT companies, blocking the services of Line and Kakao in China. The Korean IT industry interprets this as a tacit warning from the Chinese government.

The Korean game industry is hurt the most by China risk. Especially for the mobile game industry, it is “an equation for success” to launch a game with WeChat, the most dominant mobile messenger in China, created by Tencent.

However, as there are many unilateral breaches of contract from Tencent, Korean companies feel offended by Tencent’s closed policies. An industry source said, “Tencent requires something beyond the capabilities of Korean companies, such

as server increases or operational network technologies of games. Maybe because of verification, but they do not notify us the specific release date.”

A more serious problem is that the expertise of Korean game developers could leak to China in the meantime. Tencent has already created games very similar to Anipang and Wind Runner, supposedly by copying them. Another industry insider pointed out, “Tencent deserves this doubt based on its previous record. There is a possibility to be totally ripped off when trying to enter the Chinese market for great success.”

The game industry is frustrated in front of this tough entry barrier, but mobile messengers are on the verge of being blocked without notice by the Great Firewall.

The application industry is not an exception. A Korean translation application, used freely in more than 200 countries worldwide, has been blocked in China. It was blocked by the Chinese government, which is basically allowed without amendments to relevant laws. Presumably, this might be one of the containment actions from Chinese competitors.

The recent fact that Kakaotalk and Line services have been blocked in China is the very first case proving that the Korean IT industry can never be free from Chinese cutoffs just like Twitter, Google, or Facebook.

The majority opinion is that Kakaotalk and Line services were suspended as a form of the Chinese government’s media control for political purposes. However, as this suspension continues more than a week, some insist that the Chinese government is trying to contain Korean mobile messengers, which have shown strong growth recently. Although there are not that many people who use Line and Kakaotalk yet, this could be a “pre-warning message.”

Currently, WeChat of Tencent is not dominating Thailand and Taiwan while Line is growing very rapidly in the Southeast Asian market. An industry source said, “This sense of crisis could spread out to mainland China any minute. China would never be able to not care about Korean mobile messengers passing through China.” 

Dominant Position

Korean Chip Makers Lead Global DRAM Market While Losing Some NAND Flash

The two Korean chipmakers' share of the NAND flash market amounted to only 48.5 percent in the first quarter of this year. It is the first time for the combined market share of Samsung Electronics and SK Hynix to account for less than 50 percent in the market after the first quarter of 2012. In Q2 2012, the number increased to 54.3 percent.

This is attributable to the fact that competition between the two Korean chipmakers and their rival companies like Toshiba and Micron Technology has become more intense in the rapidly-growing NAND flash market, fueled by an increased demand for mobile devices.

According to market research firm IHS iSuppli on July 1, Samsung Electronics turned over US\$2.84 billion in Q1 2014, and thus maintained its position as the top-ranked NAND flash memory chipmaker in the world with a 37.4 percent share.

Toshiba occupied the runner-up position with a 31.9 percent share and US\$1.778 billion in sales. It narrowed the gap with Samsung in the market to 5.5 percent. In Q4 2013, it was 7.2 percent.

Micron Technology was in third place with a 20.1 percent share and US\$1.121 billion in sales, followed by SK Hynix with a 10.6 percent market share and US\$592 million in sales.

This phenomenon is due to the fact that the gap between Samsung and Toshiba narrowed. The increased share of Micron Technology is another factor.

The NAND flash market is growing more rapidly than the DRAM market with a 24.2 percent year-on-year gain in total sales in 2013.

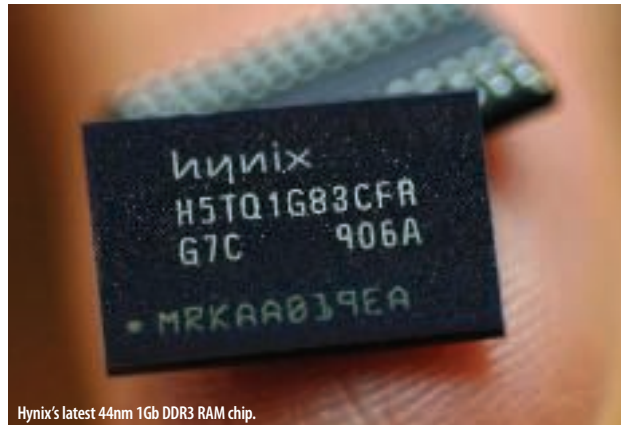
The semiconductor industry thinks that Samsung will be able to widen the gap with Toshiba after Q2, once manufacturing output in its 3D V-NAND production facility in Xi'an, China is reflected in data. The Xi'an plant commenced full operations in May.

Toshiba, which developed the world's first NAND flash memory chips in 1987, made an investment of 7 trillion won (US\$6.9 billion) in its facility to mass-produce 3D V-NAND flash memory chips.

The gap between Samsung and Toshiba widened to 17.8 percent in Q2 2012, but narrowed to single digits. In Q3 2013, SK Hynix narrowed the gap with Micron Technology to 1 percent, but the Korean chipmaker has been recording a weaker performance since then.

Meanwhile, the two Korean firms comprised 65.0 percent of the DRAM market in Q1. Samsung, SK Hynix, and Micron Technology dominate the DRAM market, while the NAND flash market is dominated by the three companies plus Toshiba.

Samsung Electronics and SK Hynix are the two dominant



Hynix's latest 44nm 1Gb DDR3 RAM chip.

players in the global DRAM market. Since each company is in the top three of the global rankings, the two firms are likely to record good performance regardless of market conditions.


According to market research firm IHS iSuppli on June 24, Samsung maintained its top DRAM maker spot in the first quarter of this year, except in PC DRAM. SK Hynix occupied the top spot in DRAM chips for PCs, and the runner-up position in the rest of the areas, aside from mobile DRAM.

By category, SK Hynix made up 33.2 percent of the PC DRAM market, which put the firm in the number one position, followed by Micron Technology (32.1 percent) and Samsung (26.3 percent). The industry thinks that the normalization of the plant in Wuxi starting in Q1 2014 contributed to SK Hynix's increased market share.

Samsung maintained its iron-fisted grip of the global mobile DRAM market with a 43.9 percent share. Micron Technology snatched second place from SK Hynix by acquiring troubled Japanese firm Elpida Memory, thus beating its Korean rival (23.6 percent) with a 29.8 percent share.

In the server system area, Samsung (43.5 percent) and SK Hynix (34.1 percent) are fiercely competing with each other. The two companies represented 77.6 percent of the market in Q1 2014.

As for the digital appliance field, Samsung (30.3 percent) and SK Hynix (20.6 percent) ranked first and second. However, other firms outside the top three constituted 30.6 percent of the market. Thus, a large number of companies are fighting for global dominance.

In the graphics card category, the two Korean firms comprised the overwhelming majority of the market, with Samsung at a 60.7 percent share and SK Hynix at 31.0 percent. 

Investment Uncertainty

Samsung, SK Hynix Can't Launch New Businesses



The Samsung Gear 2 Hackerthon took place in Seoul for two days from May 24 to 25.

Samsung Electronics and SK Hynix, which are performing well owing to the thriving semiconductor memory market, haven't yet decided on their new businesses. They are looking for a new growth engine in the non-memory sector under the management principle that they should prepare for crises when they ride high. However, they haven't made a breakthrough yet.

According to industry sources on June 29, Samsung is struggling in the application processor (AP) market. SK Hynix, on the other hand, is agonizing over its aging M10 plant.


Samsung's share in the AP market has been in decline. Research firm Strategy Analytics reported that the world's largest memory chip maker accounted for only 6.3 percent in terms of sales quantity in the AP market last year, a year-on-year drop of 5.7 percent. In terms of revenue, its market share decreased from 10.1 percent to 7.9 percent over the same period.

With LTE-A phones appearing in 2012 and competition for handsets with a high-resolution QHD display swinging into high gear, Samsung appears to be steadily losing its competitiveness in technology and price. Related to this issue, Kwon Oh-hyun, vice president of Samsung Electronics, said, "Our System LSI division is in a stalled growth mode. In fact, it is in crisis."

SK Hynix hasn't come up with measures to utilize its old DRAM facilities in Icheon, which will be useless in the latter half of next year when the construction of the new M14 plant is scheduled to be finished. Experts have been raising the possibility of the expansion of the foundry business, the enlargement of research centers, or the entry of new system semiconductor markets. But the Korean chip maker has a wait-and-see attitude.

Currently, SK Hynix is running a system semiconductor business in the field of CMOS image sensors for mobile

phones. Nevertheless, the firm needs another growth engine. But it has no choice but to maintain a cautious attitude towards a new business. Its stock price is on the rise, surpassing 50,000 won (US\$49.40) per share on June 29, due to intensified market expectations.

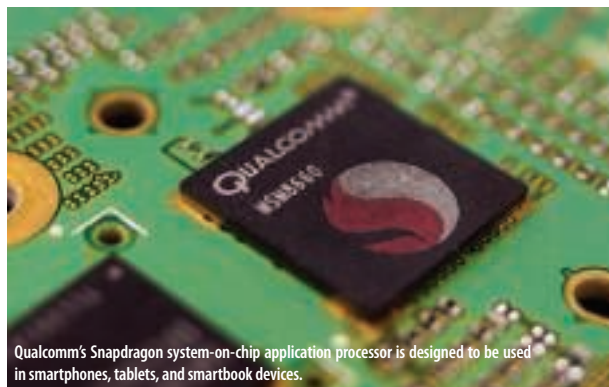
An industry source explained, "The semiconductor memory market is expected to keep prospering until next year. But to sustain growth, it is necessary to develop business development capabilities in the non-semiconductor memory field." The source added, "The direction of their strategy in the non-semiconductor memory area could decide the success or failure of the business in five to 10 years." Nonetheless, some in the system semiconductor industry point out that the two companies should focus on keeping their share of the global semiconductor memory market rather than expanding their businesses, since maintaining market dominance itself is a great achievement. 

AP Consignment Production

Samsung, Qualcomm to Sign AP Manufacturing Agreement

There is a growing possibility that Samsung Electronics and the world's number one AP maker Qualcomm will sign a contract for application processors (APs). If the deal is finalized, Samsung's struggling system semiconductor business is expected to perform better.

According to industry sources on July 16, there is widespread speculation that Samsung is going to sign a contract with Qualcomm for manufacturing next-gen APs. Neither the size of the contract nor the supplying period has been revealed.




Qualcomm's Snapdragon system-on-chip application processor is designed to be used in smartphones, tablets, and smartbook devices.

When asked about the deal, a Samsung official responded by saying, “We cannot reveal details about our customer company.” However, an official at a foreign semiconductor company remarked, “After announcing its target for 20-nm-class APs, Qualcomm has been looking for various ways to manufacture those mobile processors, as seen by its agreement with Semiconductor Manufacturing International Corporation (SMIC), the largest semiconductor foundry in China, to produce a 28-nm chipset.” The official continued by saying, “There is also the possibility of another agreement for 14nm chips. Thus, Qualcomm is more likely to strike a deal with Samsung, since the Korean firm is the only one that can manufacture 14nm APs.”

The industry believes that if Samsung already closed the deal with Qualcomm, it will be of a great help to improve the performance of its System LSI division, which is a thorn in the side of Samsung’s semiconductor business. According to research firm Strategy Analytics, in terms of sales volume, Samsung’s share in the global AP market has been cut almost in half, from 12.0 percent in 2011 to 6.3 percent in 2013. In

terms of revenue, its market share dropped from 10.1 percent to 7.9 percent over the same period.

To address the problem, Kim Ki-nam, the head of Samsung’s semiconductor business, has been trying to expand the system semiconductor business, as witnessed by his decision to sign a license agreement with global foundries for 14-nm FinFETs, so that the company can increase its influence in the foundry market.

According to industry sources, as Taiwan Semiconductor Manufacturing Company (TSMC) recently started to mass-produce A8 Aps - core components for the next-gen iPhone model - through a 20-nm process, Qualcomm’s transaction volume with Samsung was reduced. However, there is more speculation that the volume has actually been increasing this year. If Samsung supplies microprocessors to Qualcomm, it will greatly improve the performance of its System LSI division. Meanwhile, a FinFET refers to a three-dimensional transistor aimed at improving the product performance. It is named this way because the conducting channel is wrapped by a thin silicon fin, which forms the body of the device. 

Consumer V-NAND SSD

Samsung Introduces Consumer-level V-NAND SSD

Samsung Electronics will officially introduce the V-NAND Brand Solid State Drive (SSD) “850 PRO” in 53 countries on July 21. The 850 PRO is the very first SSD with V-NAND Flash that Samsung Electronics developed for individual consumers with its vertical layer method.

Samsung Electronics publicly showed the new SSD at its “2014 Samsung SSD Global Summit” held in Hotel Shilla on July 1. There were four variants of the model on display with different storage capacities of 128 GB, 256 GB, 512 GB, and 1 TB.

The new 850 PRO has reduced power usage with automatic temperature control in order to protect data. The warranty expiration has also been expanded to ten years from five years.

Samsung Electronics aims to lead the SSD market through V-NAND SSDs not only for existing servers but also for individual consumers. SSDs for individual users currently account



Samsung’s “850 PRO” V-NAND Solid State Drive comes in capacities of up to 1TB.

for 25 to 30 percent of the entire SSD market worldwide, and this is similar to how much individual SSD sales account for the total SSD sales of Samsung Electronics.

Kim Un-soo, senior vice president of Samsung Electronics’ Memory Business Division, said, “V-NAND SSDs will lead the large capacity SSD market with strong durability, high quality, and low power requirements, and this will be a quantum jump in the brand SSD business.”

On the other hand, Gartner, a market research institute, predicted that the SSD market worldwide will grow to US\$23.5 billion in 2017 from the US\$11 billion of the previous year. 

Tizen Conflict

Samsung's Global OS Platform Strategy in Trouble

As Tizen, a mobile operating system (OS) being developed for smartphone and mobile devices by Samsung Electronics, has been in trouble for three years now, the global mobile and platform strategies of Samsung Electronics are being challenged. Tizen has been developed to be the third OS, challenging the current market led by Google and Apple. In January 2012, Samsung formed the "Tizen Union" with 12 companies including Intel of the U.S., Huawei of China, NTT Docomo of Japan and Orange Telecom of France. It has been expected that companies representing each country would create something good together.

However, there has not been a single smartphone for Tizen OS in the market for three years now. The "Samsung Z" with Tizen OS launch event, which was supposed to be held in Russia on July 10, was canceled without warning. This is the third time to cancel a Tizen phone release after last year and January this year.

The Tizen Union announced specific development plans at the Mobile World Congress held in Barcelona, Spain last February. Hong Won-pyo, CEO of the Media Solution Center at Samsung Electronics, said that Samsung will concentrate on developing Tizen OS, and Tizen phones will be released by Orange Telecom and NTT Docomo within a year.

However, smartphones with Tizen OS did not appear in the market, even after a lot of rumors. Rather, Sprint, one of the major telecommunication service providers in the US, and Telefonica in Spain, left Tizen Union. Some other partner companies gave up or delayed developing Tizen products due to low market demand potential. NTT Docomo said this January, "The Japanese market is not big enough to accept a third smartphone OS, after Google's Android and Apple's iOS. It is not decided when to release Tizen phones." This means that the release of Tizen phones is delayed indefinitely due to their low marketability. In order for Tizen phones to spread out, its practicality as a smartphone OS should be verified, but global telecommunication companies are skeptical.

Accordingly, Samsung decided to release an independent Tizen phone. Since low-budget smartphones with Samsung's own "Bada" OS were very popular, and the labor costs for developers are cheap in Russia, Samsung believed that it would be easy to make applications for Tizen in Russia.

However, different from Samsung's expectations, the application ecosystem has not been created in Russia as well, due



Tizen is billed as an open source, standards-based software platform for multiple device categories such as smartphones, tablets, netbooks, in-vehicle infotainment devices, and smart TVs.

to the low participation of developers. An official at Samsung Electronics said, "Tizen phones are not ready to be introduced in the market yet. When prepared to meet the needs of customers, they will be out, rather than be hasty."

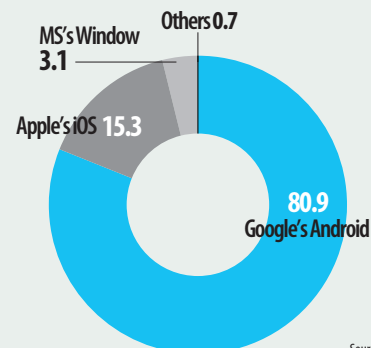
Tizen is not only mobile OS challenging Google's Android and Apple's iOS, but also a universal platform to be applied to TV and other home appliances at the same time. Together with a Tizen phone, release of Tizen TV scheduled for the second half this year, but has been delayed as well. Lee Tae-dong, chief manager at the Video Display Business Division of Samsung, said, "Smart TV for Tizen OS will be first introduced at CES held in Las Vegas early next year."

One of the main reasons for Tizen's struggle is that Samsung Electronics is not used to creating a flexible application ecosystem. In order for an OS to be successful, many developers need to create many applications running under that OS. This requires close cooperation with outside developers, but Samsung focuses more on supervision and control rather than opening and sharing information. In fact, Samsung Electronics recently announced that applications created through its own software development kit (SDK) can only be registered in its application market "Samsung Apps," which raised objections from many developers.

The fact that Samsung has enhanced cooperation with Google also blocks Tizen's way. Samsung concluded a "cross license" contract with Google in January this year in which the two companies share their patents for next ten years. This impairs the importance of Tizen, a symbol of a "de-Google"

Shares of Global Smartphone OS Market As of Q1, 2014

(Unit: %)



Source: StrategyAnalytics

policy.

Inside Samsung Electronics, many parts, including wearable devices, have returned to Android from Tizen OS. Samsung Electronics introduced the wearable “Gear 2” with Tizen OS in February this year, but the new wearable device “Gear Live” that launched last month was equipped with Android. The fact that Android is back in the game within four months is interpreted as that desire to continue to develop Tizen is getting weaker.

In the meantime, many competitors are ready to beat Samsung Electronics. Google, a major frenemy of Samsung, is trying to expand the territory of Android OS by selling out its subsidiary Motorola, and boosting Lenovo as a “dark horse” in China and the U.S.

Competition is also fierce in open-type platform structuring, one of the main purposes of Tizen. While Samsung Electronics is attempting to develop a platform to unify mobile and home appliances, Google, Qualcomm, and Apple, allying with other global companies, are preparing for a “post smartphone” era.

Other competitors to become “the third OS” such as Firefox, Ubuntu, and Windows will probably launch various new products at this MWC. Telefonica of Spain, which chose Firefox over Tizen, will introduce Firefox phones in Europe during the first half this year, and Microsoft will also expand the territory of Windows Phone, together with Sony and other Chinese manufacturers.

Awkward Samsung-Google Relationship

In the meantime, the relationship between Samsung Electronics and Google, the biggest partners in the global smartphone industry, is becoming awkward. Google expressed strong displeasure with Samsung’s efforts to minimize its dependency on Google by developing its own operating system (OS).

Lee Jae-yong, vice chairman of Samsung Electronics, met Larry Page, CEO of Google, at the “Allen & Company Conference” held at Sun Valley, the biggest vacation spot in Idaho.

According to local press “The Information” and “Business Insider” on July 17, CEO Page strongly complained to Samsung Electronics about the fact that Samsung is not focusing on “Android Wear,” the smart watch OS of Google.

Samsung Electronics has introduced four types of smart watches so far, and only one of them is using Android Wear. CEO Page is very upset, as Samsung Electronics has released two kinds of smart watches operated with “Tizen,” Samsung’s own OS developed with Intel.

A witness said, “There was a very strong tension between two.” In fact, Google has requested Samsung Electronics not to release smart watch products yet, but to wait until the development of the smart watch OS is done.

However, two companies officially explain that there is no trouble in their cooperative relationships. An official at Samsung Electronics said, “There could be minor conflicts during business negotiations, but this is only an inevitable process of problem solving.” Sundar Pichai, executive vice president of Google overseeing Android, also mentioned, “Samsung and Google are long term allies, and we cannot develop good products without cooperating with each other.” It would not be easy for Samsung who is in a series of serious patent lawsuits with Apple to say goodbye to Google and move alone.

Samsung Electronics has already accepted Google’s request of “not developing programs conflicting with applications of Google.” This is why Samsung has reduced its own basic software in its smartphones.

Samsung Electronics and Google have built a symbiotic relationship in the smartphone industry by developing smartphones and a smartphone OS, respectively. Google has especially emphasized their partnership by actively supporting Samsung in the second patent lawsuit between Samsung Electronics and Apple. 📱



Lee Jae-yong (left), vice-president of Samsung Electronics, and Larry Page, CEO of Google.

Growing Challenges

Is Korea's Smartphone Industry Losing Growth Momentum?



There is a growing concern about the weakening competitiveness of the local smartphone industry. Samsung Electronics recorded an earnings shock in the first quarter of this year owing to poor performance of its smartphone business, and Pantech is likely to enter court receivership. LG Electronics also recently released its flagship smartphone the G3, but has met with little success.

The gap between premium and mid to low-range phones is narrowing, as the premium smartphone market is growing slowly. Sony, Lenovo, Huawei, Xiaomi Tech, Asus, and Acer also continue to launch new offensives to dominate the mid to low-end market. On top of that, the fact that it is hard to find new growth engines that can lead to explosive growth of the market makes the prospects for the local smartphone industry bleak.

Samsung announced its Q2 estimate on July 8, recording an earnings shock with sales of only 52 trillion won (US\$51 billion) and operating profits of only 7.2 trillion won (US\$7.1 billion). Samsung's Q2 performance fell far short of market expectations that predicted a high 7 trillion to low 8 trillion won in profits.

The tech giant's weaker-than-expected performance is mainly attributable to a continuing downward trend in the exchange rate, a reduction in sales of smartphones and tablets, and marketing costs aimed at reducing the inventory.

A Samsung associate explained, "The reason for our company's worsening performance lies in the fact that competition between handset makers became intense amid the slowing growth of the smartphone market. So, Samsung, Apple, HTC, and other smartphone manufacturers all encountered difficulties. But the unfavorable market conditions are not related to structural problems. The current market conditions are just temporary phenomena." The official added, "It will be possible for our company to improve performance in the latter half of this year through new growth engines like tablets and wearable devices other than smartphones."

However, the outlook for Samsung in the second half is bleak because of the continuing slowdown in global premium smartphone market growth. Moreover, the tech firm has been floundering in the mid to low-end market, which is believed to be the main cause of Samsung's poor performance in Q2.

According to industry sources on July 10, Samsung predicts that a new market of phablets, tablets, and wearable devices will become new growth engines in the second half that can help the firm get out of a slump in the smartphone market. To achieve this, the firm is planning to focus on expanding the market by showcasing a variety of products such as wearable devices — the Gear 2 and Gear Fit — the GALAXY Tab S, and the Gear Live.

The market for wearable devices compatible with smartphones is expected to continue to grow, but the tablet market is likely to show a downward trend next year.

Taiwanese IT news site Digitimes recently reported that IT companies are reducing the number of new models owing to a weak outlook in the tablet market. But they think that the wearable device market will grow fast.

Pantech's situation also shows the limits of the local smartphone market. Creditor banks of Pantech, which is currently under a debt-workout program, are aiming at management normalization of the troubled company through three mobile carriers' participation in a debt-for-equity swap, but they did not get any response from the carriers. If the three carriers refuse to agree on a debt-for-equity swap, creditors must end debt restructuring and file for rehabilitation proceedings. Since they did not hear from carriers, they extended the deadline for the agreement indefinitely as a last resort.

Not only creditor banks but also handset makers in the nation are hoping for the management normalization of Pantech on the grounds of healthy competition of the local smartphone industry and concerns about the outflow of technology and manpower. Some in the industry think that Pantech's crisis is largely attributable to current market conditions in which

smartphone makers compete with each other for subsidies rather than product performance, and the government is regulating mobile phone subsidies as a result.

Samsung's Crisis Management

Samsung Electronics has declared the goal of crisis management for the latter half of this year, and decided to push forward with three strategies. The three measures are aimed at maintaining profitability even with a strong won, reducing costs, and revising business strategies. The decision was made with the belief that it is necessary for the company to take some preemptive action to quell concern about its poor performance stemming from an economic recession.

According to industry sources on July 7, Samsung hosted executive meetings on global management strategies for the latter half at its offices in Giheung and Suwon, Gyeonggi Province from June 25 to 27. A total of 500 executives and heads of overseas subsidiaries attended meetings held by the business unit, including Vice Chairman Kwon Oh-hyun, Yoon Boo-Keun, president of the consumer electronics (CE) division, and Shin Jong-kyun, president of the IT & Mobile (IM) division. Participants agreed to start a crisis management system and move forward with three strategies to overcome the crisis. After each business division devises a plan to implement the strategies, all the business units at home and abroad will push them ahead, starting in mid-July.


The tech giant intends to achieve its sales target of 250 trillion won (US\$257 billion) this year by concentrating on its development capabilities.

The first strategy is to defend profitability in the face of

a decline in the won-dollar rate. Last year, Samsung's profits decreased by more than 700 billion won (US\$692 million) owing to a drop in the exchange rate. The firm is likely to find itself in the same disadvantageous situation this year. The exchange rate recently fell to below 1,070 won to 1 dollar, which is lower than the optimal exchange rate to raise profitability. Hence, the strong won is expected to have an adverse effect on results for the second quarter. On top of that, a downward trend in the exchange rate is more likely to continue after the third quarter, which may cause the firm to lose 1 trillion won (US\$988 million) in profits.

Samsung is planning to establish various measures, led by the IM division, which comprises the largest proportion of the company's operating profits. For example, the company is willing to pay with foreign currencies for business with companies based in other countries, and to encourage business partners to pay with won.

Next, the firm is planning to cut additional costs. Early this year, marketing costs were already reduced by over 30 percent compared to 2013, but the expenses are going to be cut further. Samsung is considering whether or not it should also reduce advertising costs by considering smartphones' poor performance.

Finally, Samsung is aiming at sharpening its competitiveness through cost cuts and revised business strategies. The prime example is to make the IM division more profitable, even with its lowered sales target of 500 billion smartphones and 100 billion tablets. As for the Device Solution (DS) area, the company is going to increase profitability through restructuring of uncompetitive and unprofitable businesses, as shown by its consideration of selling its integrated circuit (IC) unit. 



Smart Home Market

Korea Might Lose Ground to Google, Apple



The smart home is the next target for technology giants.

Google and Apple are expected to fiercely compete to take the initiative in the global smart home market.

Smart homes where lighting, door lock systems, and temperature are controlled via mobile devices are likely to emerge as the second Internet of Things (IoT) industry after wearable devices. Mobile carriers and handset manufacturers in the nation are being criticized by the fact that they might lose market dominance to tech giants like Google and Apple once again, even though they first came up with the idea of smartphones working with household appliances and smart devices.

According to industry sources on July 2, competition between Google and Apple is likely to heat up in the IoT market, since they are actively seeking to commercialize their smart home-related software platforms showcased at Google I/O 2014 and the WWDC14 during the latter half of this year.

Smart homes means that locks, CCTV, lighting, heating, air conditioners, and energy meters at home can be controlled by mobile devices. More broadly, game consoles and home appliances like TVs and washing machines can be controlled as well.

According to market research firm ABI Research, the global smart home market is expected to be worth about US\$6 billion by 2019.

The smart home market is still in its early stages. Thus, Google and Apple are going to launch a new offensive to dominate software platforms prior to hardware platforms.


The search engine giant adopted a strategy aimed at expanding the ecosystem through opening its software platforms. Nest Labs, which was sold to Google for US\$3.2 billion in January this year, recently opened its core software platform and started to expand the ecosystem. The home gadget maker thinks that it will be possible for products of various companies like Whirlpool, Mercedes-Benz, and Logitech to be connected to smartphones using the Nest app. In particular, the firm aims to sync with the Google Now app, a voice-activated service,

and to make it a major service in the future.

Apple revealed its smart home platform called HomeKit at the WWDC14 last month. HomeKit is also operated in a way that connects various sensors and communication modules at home. The platform does not need a separate app, because it is already inside an operating system. Hence, users can freely use the method through Apple's Siri, the intelligent personal assistant. The company already forged business partnerships with home appliance manufacturers like Haier and Philips, OSRAM, and semiconductor companies such as Texas Instruments and Broadcom. Apple is planning to debut products starting in the latter half of this year.

Experts are saying that Google and Apple's strategy to dominate the smart home market through software platforms has great implications for local carriers and smartphone makers. For example, Samsung Electronics already presented smart homes as one of its important visions in the future at CES 2011, but met with little success. Three local carriers also tried to enter the market without much success.

This phenomenon is largely attributable to the fact that they only focused on connecting mobile telecommunications or devices rather than striving to dominate core standards and platforms. Thus, there is growing concern about the possibility that Korea might see another same mistake that was previously made in the smartphone market. Local companies with advanced mobile telecommunications technology and business development capabilities lost market dominance to Google and Apple, because they lost the power to lead the market.

An official at the Korea Association of Smart Home remarked, "The smart home industry is being expanded in the nation," adding, "To dominate the global market, global companies like Samsung and LG should cooperate with each other. Moreover, the government ought to provide full support to the industry." 

First Android Car

Google, Kia Motors to Unveil Android Car this Year

Automobiles with Google's "Android Auto" platform will come into the market late this year.

Especially in Korea, where Google maps and other navigation services are not completely available due to domestic regulations, third-party applications such as "Driver Kim" or "T Map" will be provided.

Patrick Brady, an engineering director for Google Android, and Choo Gyo-wong, a director at Hyundai Motors Silicon Valley R&D Center, got together with press at a hotel in San Francisco on June 26 and explained the current status of the Open Auto Alliance (OAA), which is an industry council for automobiles, IT, electronics, and entertainment integrated together based on Android Auto.

The two spokesmen guaranteed good experiences and safety to drivers, while they emphasized "openness" and "user freedom" as the best feature of Android Auto.

They explained that other companies and developers could invent relevant services, applications, and equipment with the Android Auto Software Development Kit introduced at the Google I/O 2014 developer conference on June 25-26. While director Choo mentioned that Hyundai Kia Motors will support both Google Android Auto and Apple Car Play, he said, "Google needs to discuss with third-party service providers, but in case of Android Auto, Driver Kim or T Map, the two most popular navigation applications, would be available."

He added, "Late this year by the earliest, Hyundai Kia Motors will manufacture the first automobiles compatible with Android Auto." He also explained, "Even among existing models, post Kia's Soul models, which have 4th generation head

units, will be able to support Android Auto."

Previously at I/O 2014 Developer Conference, Google simulated Android Auto technology with Kia's Soul.


Director Choo pointed out that they are preparing thoroughly for problems caused from synchronization of smart phones and cars in order to guarantee both user friendliness and safety.

He elaborated more as smart phones will never control automobile motion, and Android Auto control range is limited only to "infotainment" inside cars. Although automobile motion information will be recorded to smart phones, and smart phones will interact with navigation programs, monitors, speakers, microphones and buttons, smart phones will never control the mechanical movements related to driving.

Director Brady also emphasized, "Automobile safety is a completely separate issue from smart phones, and user experience is totally different from smart phones."

Some people are worried that Android Auto might not be able to recognize Korean. He answered to this, "Many users are already using Korean, and Google voice recognition will be continuously improved due to self learning ability."

Regarding the security problems raised from some people, he said, "There is widespread misunderstanding of Android Malware (Malignant Programs), and less than 1 percent of total Android users have actually been infected by Malware."

In terms of relationship between Google's driverless car plans and Android Auto, he just said, "Those two are totally separate projects even though both of them promote higher safety standards." 



Gaming Platform Competition

Korean Mobile Game Developers Release Their Own Platform HIVE

Gamevil and Com2us, which fiercely competed with each other in the Korean mobile gaming market over the last 15 years, are actively seeking to create synergy in line with their merger.

Following the purchase of Com2us by Gamevil last year, the two firms have been cooperating with each other, as shown by the release of their new combined platform HIVE. After struggling in the market due to the huge success of KakaoTalk's gaming platform, the two companies were recently able to recover their market share. Hence, much attention is being paid to whether or not this kind of partnership can maximize synergy.

According to industry sources on June 26, the success or failure of HIVE, a new mobile gaming platform showcased by Gamevil and Com2us, is drawing a lot of attention.

The appellation "HIVE" originates from a hive that symbolizes a large number of customers and networks. As a combined platform of Gamevil's Hub and Gamevil's Circle, it is aimed at creating a place in which people around the world who enjoy games made by the two companies can interact with each other. Through HIVE, both firms are cooperating with each other in membership functions such as login, SNS, and communities. It also has system management like security and statistics, and updates. Finally, it also takes care of the management of games related to banners, announcements, push, and inquires. They are also conducting marketing campaigns together. The new platform was first used for Gamevil's new game, called "Kritika: Chaos Unleashed," which entered closed

beta testing on June 25. The platform is going to be applied in all the games released by both companies in the future.

Compared to online games, mobile games take less time and money to make, but the popularity life cycle is shorter. Therefore, it is essential to mobile game developers to make a new game while their successful games are popular. In addition, it is necessary to launch a marketing campaign directed towards users of the popular game aimed at linking it with a new game.

The combination of both firms' platforms can strengthen this kind of marketing strategy and the management of users. Moreover, it is possible to lessen their heavy dependence on mobile messaging platforms like KakaoTalk, Line, and WeChat, which collect separate fees for the launch of mobile games.

The two mobile game developers pioneered the mobile gaming industry by supplying their games through feature phones around 2000. Com2us achieved the industry's first record of 10 billion won (US\$9.88 million) in sales, succeeding in its listing on the KOSDAQ market afterwards. Gamevil followed suit.

The reason for their unexpected partnership lies in the fact that KakaoTalk's gaming service became extremely popular in the nation. As a result, the competitiveness of the two firms was considerably weakened. On the other hand, start-ups like Sundaytoz, PATI Games, and Devsisters exceeded the market share of two former dominant players in the market by rapidly expanding their games through KakaoTalk's gaming platform. Gamevil and Com2us'



superior development capabilities and distribution expertise were no match for the tremendous popularity of mobile games created by those start-ups, helped by the social media craze.

However, Gamevil's Dragon Blaze became a smash hit in the local market this year. In addition, the success of Com2us games - Ace Fishing: Wild Catch and Summoners War: Sky Arena - in the global market is widely acknowledged to have attributed to the firm's rebirth. Nevertheless, their competitive advantage in the market is widely regarded as the driving force behind their success, rather than synergy created by the combination of two platforms, given that both companies were already working to develop those games prior to the M&A deal.

An industry source remarked, "Gamevil and Com2us have achieved success in the global market, without relying on users of mobile messaging platforms like KakaoTalk and Line." The source added, "The industry is paying attention to whether or not the new platform can create synergy at home and abroad."

The two gaming companies achieved remarkable growth once again, but Com2us is more successful. Com2us is reportedly earning more than 500 million won (US\$494,310) per day

with Ace Fishing and Summoners. The company's market cap approaches 600 billion won (US\$593.0 million), ahead of Gamevil with a 510 billion won (US\$503 million) market cap.

The construction of the new combined platform is expected to create a win-win situation. Com2us achieved gains from the evaluation of the new equity method, owing to the recent improved performance of Com2us.

In the meantime, Camp Mobile's BAND Games has forged a partnership with many game developers, and it is actively seeking to overtake KakaoTalk's gaming platform in market share.

After BAND Games was switched to an open platform on June 9, where

any games can be offered space, Naver's subsidiary Camp Mobile announced on July 9 that more than 250 developers have been registered as partner companies.

Among them, interface keys for application programming were issued to 170 gaming companies, including 10 Chinese, Japanese, and Taiwanese firms, so that they can launch their games on BAND Games. On the other hand, 220 companies have released their games through KakaoTalk's gaming platform.

It may be meaningless to simply compare the influence of BAND Games and Kakao Games at this point, but BAND's gaming platform has attracted a large number of game developers fast-



er than expected.

After being changed into an open platform, BAND Games has introduced one game every three days, totaling 13 games so far. 40 games are going to be available before the end of this month. **BK**

Necessary Choice

"Platform Companies" to Rise in Manufacturing Industry As Well

Nike created a wearable platform "Nike+" with Apple based on the fact that almost everyone has an iPod and more than half of them listen to music while running. Nike+ checks real-time exercise activities such as running time, distance, and calories consumed through a sensor put inside running shoes. This sensor is synchronized with an iPod. Nike also recently introduced "Fuel Band," a wrist band that could measure all kinds of everyday exercise activities, not just to running.

Thanks to these products, Nike sales increased more than 30 percent. A typical manufacturing company famous for its sports shoes once faced difficulties, but is trying to lead the market again with its healthcare service platform.

According to the industry on July 14, the global business paradigm is



rapidly changing as platforms become a huge influence on all kinds of industries. In the recent global business world, companies are rising in the market through a platform ecosystem which connects devices, content, and networks, surpassing traditional companies that simply manufacture things.

The more important fact is that almost all business sectors from IT to the manufacturing industry are attempting to transform themselves into platform companies, as platform

providers have competitive advantages to control the market.

Choi Byung-sam, chief researcher at Samsung Economic Research Institute, said, "In the current digital era, companies that create an industrial ecosystem and preoccupy leading platforms win the market, not the companies simply with advanced technology. Transforming into platform companies is not an option any more. Companies without a strong platform will be left behind." **BK**

Market Declined

Korean Automakers' Sales Fell in June



Hyundai's Ulsan shipyard, where cars are loaded up for export.

The domestic automobile industry is losing steam, with all of the five automakers in Korea having shown a poorer month-on-month performance in June.

Specifically, Hyundai Motor Company sold 412,648 cars at home and abroad in that month to record a negative growth of 0.8 percent and the figures were 245,234 (minus 3.3 percent) for Kia Motors and 51,445 for GM Korea (minus 2.6 percent). The sales volume of Renault Samsung Motors, which showed an excellent performance in May in spite of fewer business days, dropped as much as 15.2 percent in the following month. Still, its year-on-year growth rate amounted to 36 percent to overwhelm those of the others.

GM Korea recently announced that it sold 71,958 cars in the domestic market during the first half of this year, which is the highest half-yearly record in 11 years. However, the sales volume for June and the first half of 2014 decreased by 26.8 percent and 18.5 percent compared to the same period last year, respectively.

In the meantime, Ssangyong Motors' volume fell 1.9 percent month-on-month and 7.8 percent year-on-year, despite the current peak season of sports utility vehicles. "The monthly sales for June dropped a little, but due to the shrinkage in the domestic market, decreasing demand from emerging markets and exchange rate factors," the company explained.

The carmakers are concerned over the possible impact of the decreased monthly sales on the second half. The mobile phone market, which is one of the important pillars of the Korean economy, has already fallen into a slump. The national economy could be in the face of even greater difficulties if the automobile market follows it.

In the first half of 2014, all of the Korean carmakers recorded positive growth, with the only exception of GM Korea. Hyundai Motor Company and Kia Motors grew 4.4 percent and 7 percent each, while Renault Samsung Motors' and Ssangyong Motors' growth rates were both 6.9 percent. Although the percentages are single-digit, the results are mean-

ingful enough in view of foreign exchange fluctuations and the dampened consumer sentiment during the period.

The companies are planning to cope with the situation with new models. Hyundai Motor Company is preparing to continue the new car effect from the New Genesis and LF Sonata through the second half. The number of contracts for the diesel model of the Grandeur, which is available from this month, has hit 1,800 in 20 days. Kia Motors is going to step up its marketing for the All New Carnival minivan and release the new Sorento R in the near future. Renault Samsung Motors released the SM5 Diesel this month, too.

Diesel War

Domestic Diesel Sedans Contend with Imported Brands



Hyundai Motor's diesel Grandeur model first shown at the 2014 Busan Motor Show.

Hyundai's Grandeur, GM Korea's Malibu, and Renault Samsung's SM5 have presented new diesel lineups. As these domestic vehicles compete in the diesel sedan market, the industry anticipates a hindrance in demands of import diesels.

Hyundai Motors recently revealed the release of a large-size diesel sedan, 2015's Grandeur, which has adopted the Santa Fe model that has R2.2 E-VGT clean diesel engine. This is compatible with the "Euro 6," Europe's diesel engine emission legislation, while possessing fuel efficiency of 14 km per liter. The diesel Grandeur is attracting high hopes as it is the first big-sized diesel-engine vehicle released in Korea. Grandeur diesel engine costs were fixed as 32.54 million won (US\$31,879) to 34.94 million won (US\$34,225), which is in between the 2.4 gasoline (30.24 million won, US\$29,621) and 3.0 gasoline (33.61 million won to 38.75 million won, US\$32,929 to \$37,957) engines.

Renault Samsung Motors announced the availability of reservations for its new "SM5 D," the new diesel model for the mid-sized SM5. Expected to be released next month, "SM5 D" achieves efficiency of 16.5 km per liter by supporting both a 1.5 dCi diesel engine of the French Renault and the dual clutch transmission (DCT) of Germany's Getrag. The engine cost is

expected to be fixed from 25 million won (US\$24,492) to 27 million won (US\$26,447).

The cause for this continuous diesel releases are due to domestic consumers' preference toward diesel engines. GM Korea's "Malibu Diesel" released in March has sold 738 in one single month, reaching up to 3,000 reservation contracts causing consumers to wait quite a while to receive them. An authority of the industry predicts, "We will see domestic diesels rise in the future unlike the history of popular diesels heavy in imports."

GM Korea's Ambition

Aiming to Get 10% Market Share within 10 Years

GM Korea drew plans to achieve 10 percent market share in ten years by continuously promoting new vehicles as well as Cadillac and Chevrolet stores.

GM Korea CEO Jang Jae-jun stated as such at the All New CTS Media Conference in Hyatt Regency Incheon Hotel adding, "By communicating even more with our customers this year, we will expand Cadillac sales by 1,000, and 2,000 next year."

GM Korea especially aims to vastly increase market share by actively releasing new models such as the All New CTS, a medium-sized, high-end sedan.

CEO Jang stated, "We will keep releasing succeeding models of existing cars as well as at least one brand-new model to reach 10 % market share of high-end import cars within ten years."

He emphasized, "We plan to maximize customer relations by expanding Chevrolet and Cadillac compound stores to ten, including independent Cadillac stores. Six compound stores will be chosen between this month and the beginning of July to exhibit Cadillacs to ultimately increase up to nine stores by the beginning of next month."

The 2014 Cadillac has adopted a 2-liter gasoline turbo engine (rear-wheel-drive six-speed auto transmission) instead of its previous 3 to 3.6-liter gasoline engine to cut fuel consumption. A maximum output of 276 horsepower and maxi-

mum torque of 40.7kg is the performance of the model, along with three drive modes - tour, sports, and ice.

German Dominance


Accounting for 70% of Korea's Import Car Market

The Ministry of Trade, Industry and Energy announced on July 8 that a total of 94,263 imported cars were sold in Korea during the first half of this year, showing a 26.5 percent growth from a year ago and raise foreign automakers' share in the Korean market to 13 percent.

The rapid growth is led by German carmakers such as BMW, Volkswagen, Mercedes Benz, and Audi. BMW sold 20,268 cars between January and June to record a year-on-year growth rate of 21.0 percent. However, the other three companies outpaced BMW during the period. Mercedes Benz' sales volume and growth rate amounted to 16,642 and 42.8 percent, respectively. Those of Volkswagen and Audi increased 41.4 percent and 44.0 percent to 15,368 and 13,536.

The gap between BMW and the other three is narrowing these days. On the basis of the June sales volume alone, BMW accounted for 2.4 percent of the Korean automobile market, while Volkswagen, Mercedes Benz, and Audi took up 2.2 percent, 2.1 percent, and 2.0 percent. The difference in the sales volumes of the first and fourth rankers is less than 600 units, too. The four German companies are currently representing more than 70 percent of the imported car market of Korea, given that 12.7 percent of the cars sold in Korea last year were imported.

Under the circumstances, Japanese carmakers are having a hard time in the country. Only Lexus sold 2,917 cars during the period to grow by 11.6 percent, whereas Toyota showed negative growth of 30.8 percent with its sales volume falling to 2,997. Each of Nissan, Infiniti, and Honda sold less than 2,000 cars, although all of them posted double-digit growth.

Industry experts attribute the German automakers' popularity to the Korea-EU FTA and the high fuel economy of their diesel sedans. The former has been a boon to the price competitiveness of the auto manufacturers, while the demand for diesel sedans has gone up due to a higher interest in fuel efficiency. 



GM Korea recently showed the all-new 2014 Cadillac CTS at a press event at the Hyatt Regency Incheon Hotel.



Missing Chances

Korean Auto Makers Lose Dominance in Local Eco-friendly Car Market



Hyundai Motor's Sonata Hybrid.

The global eco-friendly vehicle market is steadily growing, despite a weak outlook. Tesla Motors, BMW, and Nissan Motor Company, which are viewed as leaders of electric cars, are discussing a business partnership scheme for charging networks. Therefore, much attention is being paid to their next move.

The Korean eco-friendly car market, on the other hand, is in a stalled growth mode, owing to a lack of government policies stemming from controversy surrounding the “low carbon vehicle fund system” and local auto makers’ passive responses. If nothing changes, Korean auto manufacturers are likely to lose domination in the local eco-friendly car market.

According to market research firm Inside EVs on June 20, US eco-friendly vehicle makers reported the best monthly sales in May by selling 12,053 units. Accumulated sales reached 42,570 units, a 27.5 percent year-on-year gain.

Vehicle types have also become diverse. In 2010, there were only three

models in the US eco-friendly vehicle market: the Chevrolet Volt, the Nissan Leaf, and the Mitsubishi i-MiEV. But there are 17 models as of late May, and the market is projected to grow further, since new models like the 2014 Mercedes-Benz B-Class Electric Drive and the BMW i8 are going to be introduced into the market.

On top of that, ongoing discussions about sharing charging networks that are separately run are expected to play a positive role in the expansion of the green auto market. The Financial Times reported that BMW, Tesla Motors, and Nissan Motor Company recently held a closed-door meeting to discuss ways to cooperate with electric car charging networks.

Tesla is widely regarded as the driving force behind the electric car craze, which changed the notion of electric vehicles from economically feasible to premium products. Nissan has the Leaf, which surpassed 100,000 units in sales for the first time in the global market. BMW’s i3 and i8 are receiving a warm

response from the market as well. The industry thinks that their cooperation will have a huge influence on creating a single electric vehicle (EV) charging standard.

In contrast, the local eco-friendly car market in which electric vehicles have just started to be sold is drifting aimlessly due to the controversial low carbon vehicle fund system.

“We will create a plan after reviewing a report that puts together the opinions of three relevant government departments, i.e., the finance ministry, the industry ministry, and the environment ministry, which is due to be released during this month,” said Environment Minister Yoon Seong-kyu on June 17. The Minister added, “Persuasion of and agreements among involved bodies are prerequisites to any progress. Once the report is published, we are going to discuss the system.”


However, those three government agencies are unlikely to reach an agreement, given that they couldn’t find common ground and were in confrontation

with each other over the issue during the hearing held in the third week of June. If they fail to reach an agreement and the system won't be implemented as a result, there will be no alternative policy that promotes green cars.

The Ministry of Environment is responsible for the distribution of eco-friendly cars, but the Ministry of Trade, Industry and Energy (MOTIE) is in charge of charging standards and the R&D field. The Ministry of Land, Infrastructure and Transport has to be consulted in the transportation area as well. Hence, coherent policies among government agencies are badly needed at the moment.

The industry is passive, too. Some auto makers including BMW are actively seeking to build EV charging infrastructure, but the number is far from sufficient. Industry analysts are saying that government support is essential for the construction of infrastructure. Nevertheless, a support project for infrastructure will end this year.

Charging methods are not compatible with each other, either. Only the BMW i3 and the Spark EV adopted the SAE combo charging standard, and other companies like Kia and Renault Samsung Motors are using different quick charging methods. Many in the industry are calling for a unifying charging standard, but the MOTIE has a wait-and-see attitude in that there is no unifying standard in the global market.

An industry source remarked, "The local market is widely acknowledged as the best place to nurture the eco-friendly car industry, because the nation has a competitive advantage and technical skills in lithium-ion secondary batteries as shown by Korea's dominance in the global secondary cell market thanks to Samsung SDI and LG Chem. Moreover, Korea's small amount of land is favorable to building charging infrastructure." The source concluded by saying, "If the government provides full support and the industry cooperates with each other, local companies could lead the market in the future. But, I feel sorry for the fact that it is not the real situation now." 

Japan Brands Far Ahead

Toyota Leads This Year's Domestic Hybrid Market with 97.1% Share

Toyota Korea is leading the domestic hybrid market, scoring high sales with a powerful lineup and high quality, cost-effective offers.

According to a related source on June 23, the number of Toyota Korea hybrid units sold this year until May records 2,558, which is 97.1 percent of the entire import hybrid sales. It reveals that Toyota Korea is dominating the import market.

Toyota Korea sold 6,342 import hybrid models domestically in 2012, and 5,835 in 2013. Among the import hybrids, Toyota Korea's sales were 94.6 percent in 2012 and 96.3 percent in 2013, which are both unequaled records. This resulted in Toyota Korea's increase in domestic sales.

Toyota Korea is experiencing success with a 5.7 percent increase in hybrid sales (5,622, 43.7 percent) among a total display of 12,863 cars.

Compared to the same time last year, this year's sales of hybrid models increased by 42, 53.62 percent of the total display. This growth is due to a competitive lineup of high-end models and cost-effective value performance. The ES300h, a Lexus hybrid model, also belongs in the top ten of Germany's diesel-oriented import market.

"The New CT200h," a Lexus model released in March last year, is also enjoying a fair share of sales resulting in the expanding popularity of hybrids. This is the only Lexus model that is a hybrid, adopting additional features such as the design that reflects a new generation of Lexus philosophy, as well as cutting-edge specifications.

Toyota Korea seeks to release a brand new Lexus in October and a Toyota hybrid by the end of the year to continue the rise. 



Lexus' new CT200h hybrid hatchback vehicle.

Declining Orders

New Orders for Korean Shipbuilders in Sharp Decrease amid Chinese Share Jumping to 44%

As new orders for Korean shipbuilding companies declined significantly, Korea became market number three, far behind China. Even Japan beat Korea in June.

According to the shipbuilding industry of Korea and international shipping and shipbuilding market research company Clarksons on July 4, the number of new commercial vessel orders worldwide during the first half of 2014 was 944, equivalent to 20.48 million compensated gross tonnage (CGT). This is 17.2 percent CGT less than the same period of previous year which recorded 1,236 vessels and 24.73 million CGT.

Korean shipbuilding companies received 555 CGT new orders (164 vessels) during the first half of this year, 29.5 percent drop from 7.87 million CGT (230 vessels) of same period last year. Market share also declined to 27.1 percent from 31.8 percent.

On the contrary, China which did not perform that well early this year swept the new orders from March, and therefore recorded 9.09 million CGT (481 vessels) of new orders. Even though number of orders decreased 7.8 percent from last year's 9.86 million CGT, market share of China increased to 44.4 percent from 39.9 percent.

In terms of total order amount, China beat Korea as well. During the first half of last year, Korea received the total US\$21.7 billion of new orders, and China did US\$17.3 billion. However, during the first half of this year, China received new orders worth of US\$14.5 billion, whereas Korea did US\$13.2 billion.

New orders to Japanese shipbuilding companies were 3.45 million CGT (177 vessels) during the first half of this year, which made market share of Japan decrease to 16.8 percent from 19.0 percent. But Japanese shipbuilders are lately trying to enhance their competitive advantages over depreciation of Japanese Yen. Especially during June, Japan became market number two (25.9 percent) right behind China (47.7 percent) which received orders of 900,000 CGT, as new orders to Japan reached 4.9 billion CGT. This made Korea the third in market with its new orders worth of 310,000 CGT. Japan beat Korea in monthly new orders record for the second time this year after April.

Backlogged orders which indicate workload remaining are 886 vessels (3,295 CGT) for Korea, 2,443 vessels (4,499 CGT) for China, and 939 vessels (1,842 CGT) for Japan.

**Local Hard Times in Offshore Plant Business**


In the meantime, there were no new offshore plant orders for Korea's big 3 shipbuilders since last April. Due to shale gas effects, oil majors do not feel the need for crude oil exploration, and this shrank the investment in offshore plants.

According to the report of the Korea Offshore and Shipbuilding Association and Clarksons on June 22, the worldwide offshore plant industry from January to April this year was worth US\$15.5 billion, US\$1 billion less than last year. Domestic offshore plant orders also decreased to US\$3.9 billion from last year's US\$5 billion.

Hyundai Heavy Industries has not received any new orders since last February's Floating Production Offloading (FPO). Their offshore plant division received US\$5.3 billion worth of orders during January-May last year, but only US\$1 billion this year.

Daewoo Shipbuilding & Marine Engineering faces an even harder situation. They do not have a single offshore plant order as of this May. Last year, they received US\$3.5 billion worth of orders, including 2 fixed platform and 1 modular plant, until May. Especially, offshore plant business had accounted for more than 60 percent (US\$8.9 billion) of its entire sales volume.

Samsung Heavy Industries received orders for 2 drill ships last April and 1 FLNG, a total worth of US\$2.9 billion, by May. Their total target sales this year are US\$15 billion, and their offshore plant target is US\$9 billion, which is a very tough situation as well.

An industry professional said, "The shipbuilding industry, which seemed to recover during the first half of last year, is getting into chronic recession again this year. There might be additional major restructuring of shipbuilding companies which are short of new orders." 

Plant Exports Revived

Consortium of Korean Builders Contributing to Win Overseas Plant Orders



The skyline of Biskra, in the northeastern region of Algeria, in which a Daewoo International consortium will build turn-key power stations.

Plants have revived as key export drivers. Three keywords are “Middle East,” “petroleum,” and “consortium.” Consortia of Korean builders supported by financial institutions have won many oil and gas plant orders in the Middle East.

The Ministry of Trade, Industry and Energy announced on July 14 that overseas plant order amounts during the first half of this year reached US\$33.7 billion, a 20 percent increase from the same period last year (US\$28 billion).

By region, orders from Africa, almost barren so far, grew the most. Orders from Africa during the first half of 2011 were only US\$530 million, but this jumped to US\$5.6 billion this year, growing more than ten times higher within three years. A consortium of Hyundai Engineering and Hyundai E&C made a contract of combined thermal power plant construction worth US\$1.36 billion in Biskra and Jijel, Algeria, in February. A consortium of Daelim and GS E&C also won a contract for a US\$610 million combined thermal power plant construction project in Kais, Algeria. Especially, the con-


struction project in Biskra and Jijel is the biggest contract that Korean companies have won in Africa so far. Choi Gyu-jong, director of the shipbuilding and offshore plant division of the Ministry of Trade, Industry and Energy, explained, “Demand for plant construction is rapidly growing in Africa. More and more Korean companies are entering this emerging market.”

Performance in the Middle East, home ground for Korean companies, also improved, even with the geopolitical insecurities in Iraq. Orders within the Middle East grew more than three times to US\$17.3 billion in the first half this year from US\$5.5 billion a year ago. A consortium of Hyundai E&C, SK E&C, GS E&C, and Hyundai Engineering won a contract for refinery construction in Karbala, Iraq. A consortium of Korean construction companies won other construction deals in Kuwait as well.

Performance in Europe and Asia became worse, quite different from the Middle East and Africa. In Europe, the order amount sharply declined to US\$72 million during the same period this year from US\$8.86 billion in the previous

year. In Asia, the order amount dropped more than 40 percent from US\$9.6 billion to US\$5.4 billion. Offshore and industrial plants are the main items in above areas, but the absolute number of new builds decreased, according to the Ministry of Trade, Industry and Energy.

Offshore plants accounted for 38.5 percent of the total orders last year, but this decreased to 8.1 percent this year. Industrial plants decreased to 4.5 percent from 11.8 percent as well. The economic recession in Europe and Asia is directly reflected in plant orders.

However, the plant market during the second half this year is expected to continue a growth trend thanks to major project orders from the Middle East and other emerging economies. The Middle Eastern crisis or Iraq problem, if elongated, could hurt the new order market, though. An official at the Ministry of Trade, Industry and Energy said, “We will actively try to attract new orders from the overseas market in order to reach US\$70 billion this year. We will have Central and South America project road shows in this coming October as a part of our efforts.” 


Bumpy Road Ahead

Local Steel Market on Verge of Dominance by Chinese Steel

Rolled steel is a heavily-exported commodity in Korea.

The Korean steel industry outlook is getting worse. Korean steel companies expected to gain some advantages upon the restructuring of the Chinese steel industry, but the production and exports of Chinese steel are rather increasing. Korean companies are being hurt by relatively cheaper Chinese steel in both the domestic and global markets.

According to the Chinese and Korean steel market on July 8, crude steel production in China from January to May this year increased 2.7 percent compared to the same period last year to 342.52 million tons. Daily crude steel production also increased 4 percent to 1.84 million tons.

Both production and exports of Chinese steel jumped up to 33.94 million tons for the period, which is a 33.6 percent increase from the same period last year. Exports of Chinese steel products were steady until last year, but slowed down 13.2 percent in February this year, right after the 37.6 percent increase in January, due to the restructuring of Chinese steel companies. However, exports rebounded 28 percent in March, and even higher to 35.9 percent in April.

In fact, China's total exports including steel products in May added up to US\$195.472 billion, up 7 percent from a year ago. But exports to Korea increased 11.9 percent to US\$8.925 billion.

In case of hot rolled steel sheets, Korean companies' products are 70,000 to 80,000 won (US\$69 to 78) more expensive per ton than imported ones. Imported products have even more price advantages recently due to the appreciation of Korean won. Practical burdens on Korean steel companies are inevitable.

An official working in the Korean steel industry said with worry, "As Chinese steel accounts for almost half of total steel production worldwide, China has the price initiatives of both raw materials and final products." He also commented, "Since Korean companies' efforts to minimize production costs have reached a limit, they need to come up with innovative strategies to be able to manufacture high-value products."

Competition between Korean steel and cheaper Chinese

steel is getting fierce in the overseas market as well. An official in the steel industry said, "Recently, Korean steel companies were sued for anti-dumping in Malaysia, and this is primarily because of cheaper Chinese products."


Under such circumstances, Korean steel companies are focusing on improving their financial structure. As the recession continues, they are trying to increase the cash flow by sell-offs of minor businesses and IPOs of subsidiaries.

According to sources in steel industry on July 10, the big four steel companies of POSCO, Hyundai Steel, Dongkuk Steel, and Dongbu Steel are trying to restructure their financial status during the second half this year. Facing serious liquidity problems, some companies are even considering selling out not only minor businesses but also healthy subsidiary companies.

Although POSCO, the number one steel company in Korea, is relatively stable compared to other companies, financial restructuring is still very crucial. Since Chairman Kwon Oh-joon has come on board, POSCO is planning to make money by selling off marketable assets without seriously impairing its competitiveness in market.

Hyundai Steel is also speeding up on financial restructuring even though it is the only company with a two-digit growth rate in both revenue and profit among all Korean steel companies. However, Hyundai Steel has a high 121.69 percent debt ratio, compared to the 90.02 percent of POSCO, which resulted from big investments so far.

Dongguk Steel, number 3 in the industry, is having very hard times these days, as it is the only case among all Korean steel companies to form a financial restructuring contract with creditors. The creditor council started to also control Dongbu Steel in order to improve its financial structure and stabilize management.

Jung Min-soo, director of Korea Investors Service, predicted, "The market outlook for construction and shipbuilding which require steel is still quite bad. It will take time to improve financial structures due to a long-lasting recession of the steel market and other front industries." 

Local Thick Plate Market

Thick Plates Made in China Poised to Flood Korean Steel Market

It is expected that an increasing amount of thick plates made in China will be supplied to the Korean steel market, as multiple Chinese steel manufacturers are poised to penetrate the market one after another.

For example, Tangshan Iron and Steel recently signed a business agreement with an export agency to export 100,000 tons of thick plates to Korea per year. The agreement is due to the sluggish demand in the domestic market of China. Tangshan Iron and Steel's annual crude steel production capacity reached 20 million tons last year, and 3.07 million tons of it was exported during the same period. The company is planning to increase its exports to Korea and some other countries this year.

"Tangshan Iron and Steel signed the contract with an exporter running

branches in Beijing and Hong Kong," said an industry source, adding, "It seems that things will be harder for Korean steelmakers down the road with a lot of other Chinese steelmakers, not just Tangshan, rushing into the Korean market."

Korea recorded a trade deficit of US\$2.07908 billion against China in the steel industry during the first five months of this year. The amount was US\$3.10973 billion last year. In addition, the thick plate import volume surged by 29 percent from a year earlier to 517,632 tons in the first quarter of 2014.

At present, Korean construction companies depend heavily on Chinese thick plates for the sake of cost reductions. Some Korean shipbuilders are using the products for the same purpose,



too. Under the circumstances, Korean steelmakers' profitability is expected to keep deteriorating, as they are in no position to mark up the prices of their products. POSCO has recently cut the prices of its products earlier this year in this vein.

The per-ton price of imported thick plates is around 600,000 to 610,000 won (US\$584-593) now. Those supplied by POSCO and Hyundai Steel are priced at 650,000 to 660,000 won (US\$632-642) per ton. **BK**

POSCO Restructuring

POSCO Sells FINEX 1 Plant to India

POSCO signed an MOU with MESCO Steel last month to sell its FINEX 1 plant to the Indian steelmaker. Although the government has yet to give its approval, the process is expected to go smoothly because the deal relates to the construction of an integrated steel mill.

MESCO Steel is a company that was established in 1992, and its annual production capacity reaches 700,000 tons. The Odisha region, home to the factory, is where POSCO has been in pursuit of integrated steel mill construction since 2005.

POSCO's decision to sell the plant has to do with the characteristics of the region. Odisha is a place very sensitive to environmental problems, and the locals and environmental organizations have demanded that manufacturers in

the region adopt eco-friendly production techniques. The FINEX technique is characterized by much less exhaust gas emissions than blast furnaces as well as cost-saving effects.

POSCO is anticipating that the sale of FINEX will be a boon to its steel mill construction that has been delayed for close to 10 years due to opposition from the locals.

The Korean steelmaker developed the world's first FINEX technique in 2002 after 10 years of investment and set up the FINEX 1 plant in the following year, with demo plant facilities having an annual capacity of 600,000 tons. The second (1.5 million tons) and third plants (two million tons) were put into operation in 2007 and January this year, respectively. Recently, POSCO decided



POSCO developed and commercialized FINEX technology in 2007 in cooperation with Siemens.

to improve its financial structure by selling the first plant, which is estimated to be priced at approximately 70 billion won (US\$67.8 million).

"The FINEX technique is a part of the national key technologies subject to tech leak prevention, and thus government approval has to come first for the sale," POSCO explained, adding, "The negotiation with MESCO Steel is in its early stage now, and it remains unknown if and when the deal will actually be made." **BK**



“Blue Chip” Industry

Korean Government to Develop 50 Innovative Biotech Companies by 2020

The Korean government will expedite the industrialization of stem cell biotechnology, develop gene therapy, and create a new converged market for information communication technology (ICT), to become a global biotech power by 2020. The government will also nourish 50 innovative companies with a global competitiveness in biotechnology.

The main focus will be the development of six key technologies including solar cells, fuel cells, and bio-energy, to pre-occupy the global climate-related market created by energy savings and low emissions. Furthermore, a “zero energy building” project utilizing new and renewable energy will be executed to consume less energy.


The Ministry of Science, ICT and Future Planning and Ministry of Trade, Industry and Energy gave a briefing to President Park Geun-hye on improvement strategies for biotechnology and climate change at “The New Technology and Business Creating Strategy Report for Biotechnology and Climate Change” and “The 11th Presidential Advisory Council on Science and Technology” held in Hawolgok-dong, Seoul on July 17.

According to each Ministry, global biotech industry will grow to 635 trillion won (US\$615 billion) by 2020, becoming a “blue chip” that enables Korea to preoccupy a huge global market, achieve per capita income of US\$40,000, and realize a “welfare” society ready for an aging era and high medical

costs. As Korea has the best production capability and technology in new biosimilar and biobetter pharmaceutical markets, the government will provide necessary support to develop professionals and encourage small venture companies to expand overseas in order to have more than 10 percent of the market share in the global stem cell industry by 2020.

Through systematic support by growth level, the government plans to increase innovative and globally competitive companies in biotechnology to 50 by 2020, from the current 13.

The Ministry of Science, ICT and Future Planning will play a very active role in developing six key technologies including solar cells, fuel cells, bio-energy, secondary batteries, new and renewable hybrids, and carbon capturing and processing technology in cooperation with industry, schools and research institutions. This will make sure that Korea develops the essential counter-technologies to climate change, reduces emissions, and ultimately preoccupies the global market.

The Ministry of Trade, Industry and Energy will come up with new business creation strategies to invite investment and create jobs, by utilizing entrepreneurship. The Ministry of Land, Infrastructure and Transport will enable construction of “zero energy buildings” which have high heat insulation property and low energy consumption due to new and renewable energy usage, with the similar costs to normal buildings so that those zero energy building have better business value. 

Crisis of Healthcare Industry

Korean Healthcare Industry Stuck in a Rut



The lobby and entrance to Yonsei University Medical Center, also known as Severance Hospital.

The domestic healthcare industry, which is estimated to reach 5 trillion won (US\$4.9 billion) in size next year according to the Electronics and Telecommunications Research Institute, is drawing much attention, as the trend of convergence between information technology, biotechnology, and medical technology is spreading around the world. Unfortunately though, the healthcare business of local information and communication technology (ICT) companies such as SK Telecom, KT, Samsung Electronics, and LG Electronics is at a crisis, as the legal and social systems are failing to catch up with the progress of the trends.

One of the typical examples is Health Connect, which was jointly established by SK Telecom and the Seoul National University Hospital (SNUH), but is about to be stranded due to opposition from the medical sector. The company is currently providing Health On, a tailored healthcare service making use of smartphones and activity trackers, along with the hospital finder of Patient Guide and the tablet PC-based


Bedside Station service for inpatients. These smart hospital solutions are not directly related to medical care, but have encountered the medical privatization issue. The labor union of SNUH has recently defined Health Connect as a for-profit subsidiary of a medical corporation, which is prohibited by the current law, and started a strike on July 21 claiming that SK Telecom stop the business in which patients' personal information could be gathered without consent.

KT, on its part, set up HOOH Healthcare with Severance Hospital, and has prepared hospital information systems, IT-based healthcare services, hospital management assistance, and medical informatization projects. However, the progress has been slow from the get go.

Samsung Electronics mounted a heartbeat sensor on the Galaxy S5, but released the phone in March with the function deactivated due to regulations surrounding electronic medical devices. Then, the Korea Food & Drug Administration revised its notice to categorize

it as a heartbeat sensor for exercise and leisure purposes, so the handset can legally provide the function.

Google and Apple, in the meantime, are poised to dominate the global healthcare market with their Google Fit and Health Kit platforms, while Korean companies are mired in regulations and social backlash. These services collect a wide range of body state information such as blood pressure and heart rate.

The Korean government is failing to mediate the conflict, though. The Ministry of Health and Welfare is planning to revise the enforcement regulations of the Medical Care Act to allow medical corporations to establish for-profit subsidiaries and expand the scope of medical business by attracting foreign patients. However, the opposition parties, medical and healthcare organizations, and civic groups are strongly opposed to the revision to lower the possibility of implementation. The first pilot project for remote healthcare, which was planned to be started in June, is going nowhere due to the controversy surrounding medical privatization, too. 

Tech Localization

Localization of Tech to Store Liquid Hydrogen

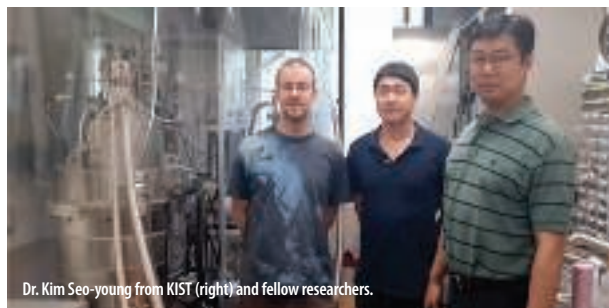
The Korea Institute of Science and Technology (KIST) announced on July 1 that a research team led by Dr. Kim Seo-young from the Green City Technology Institute at KIST established a venture firm early this year called “Hydrium Industry” after successfully developing a method to liquefy and store hydrogen.

Dr. Kim will lead the company as CEO after being approved by KIST’s committee that reviews new businesses.

Now gas can be stored as high-pressure hydrogen and transported in the form of hydrogen oxide. But larger amounts should be stored by being converted into liquefied hydrogen.

In recent years, the use of liquefied hydrogen has expanded to aerospace, auto, and unmanned aerial vehicle (UAV) industries, as the development of fuel cells has been active. Moreover, the size of the market has been bigger.

In the 1960s, liquefied hydrogen was first utilized as rocket fuel in the US, but it was banned from being exported due to its designation as cutting-edge space and military technology.




Dr. Kim Seo-young from KIST (right) and fellow researchers.

Liquefied hydrogen was impossible to make in the nation for technical reasons.

After years of research and development efforts starting from 1996, the research team finally succeeded in developing top-notch hydrogen liquefiers, storage vessels, and cryogenic equipment early this year.

A system that provides liquefied hydrogen can increase the operating time of existing fuel cells and hydrogen internal combustion engines by at least three or four times.

Based on price competitiveness and a competitive advantage in technology, Hydrium Industry aims to create new markets in the military and medical fields. It will do so by supplying liquefied hydrogen to cryogen transfer pipes and storage vessels. 

Advances in Cancer Treatment

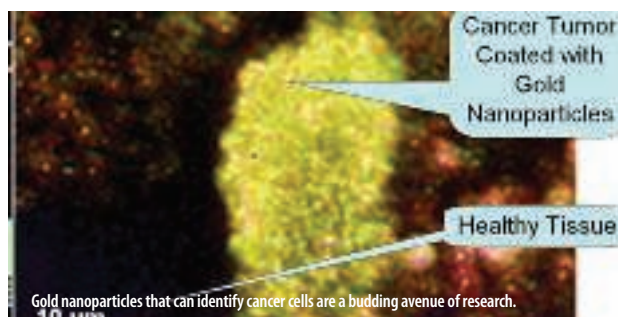
Development of New Nanomaterial for Cancer Treatment

The Ministry of Science, ICT and Future Planning (MSIP) announced on July 9 that a research team led by professor Lee Ji-won from Korea University and Dr. Kim Kwang-myung from the Korea Institute of Science and Technology successfully developed a new nanomaterial that can improve the efficiency and increase the safety of light and heat treatments for cancer.

Light and heat treatments kill cancer cells using heat that occurs when gold nanoparticles absorb near-infrared lasers. The treatment involves exposing cancer areas to lasers after transferring gold nanoparticles. To make the method more effective, 20-nanometer-class gold particles are actively researched, since those gold nanoparticles can absorb highly-penetrable near-infrared lasers very well, and they are excellent in phototherapy.

However, gold nanoparticles at that size reportedly have potential risks because of excretory problems. Moreover, they are difficult to be delivered to cancer areas. Hence, they are not widely utilized.

The new nanomaterial combines with cancer cells rather




Gold nanoparticles that can identify cancer cells are a budding avenue of research.

than normal cells, dissolves easily, and can easily be discharged from the body through the voluntary denaturation of proteins. The new material consists of peptides — a compound of amino acids that stick to cancer cells of the surface of protein nanoparticles — and gold nanodots below 3 nm in size.

Using the new nanomaterial, the research team treated a mouse stricken by cancer after being exposed to breast cancer cells. After studying organs and tissues of the mouse for three weeks, they found that cancer cells were destroyed and gold nanoparticles were not inside the body of the animal.

Professor Lee remarked, “The newly-developed nanomaterial maximizes the efficiency of the light and heat treatment, and can be a clue to the problem related to organs and tissues caused by the accumulation of gold nanoparticles in the body.”

The study was funded by the MSIP, and the research findings were first published online on July 8 by Advanced Materials, a weekly scientific journal covering materials science. 

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Incessant Popularity

Korean Dramas Blocked on Chinese Internet Leads to Local Web Drama Production



Promotional material for the Korean drama "The Heirs," a TV show about a high school for the super rich.

As Korean drama shows including "The Heirs" and "My Love from the Stars" are extremely popular in China through the Internet, the Chinese government is trying to regulate the Internet and Chinese producers are producing their own web dramas.

However, stories of web dramas would still be Hallyu (Korean Wave) content. The main structures of dramas such as plots, characters, and direction remain Korean style, but these "made in China" web dramas will not be censored by the government.

In fact, this trend has already started in Chinese TV drama shows. But with the popularity of the Internet, there is a new wave of web based "Looks like Chinese, but Korean inside" dramas.

Bae Kyoung-ryul, CEO of iM Company, which is specialized in China, said, "Since the Chinese government is trying to regulate the Internet, Chinese producers want to make their own web dramas to avoid regulations."


CEO Bae added, "Considering the web base circumstances, each episode is about 10 minutes, and there will be a total of 10 episodes, roughly. We already received production orders from China."

The CEO of another drama production explained, "In China, producing Chinese dramas with Korean writers, actors, and staff is already very popular, beyond just importing Korean drama shows. Contents are Hallyu, but these dramas are categorized as Chinese, as China is actually responsible for the production costs and distribution."

This person added, "The Chinese government might also control the Korean content more severely, as these web dramas are intended to slip away from all regulations."

Due to the quota and censoring of foreign content, Korean dramas are not actually allowed to be aired on Chinese public TV networks. Recent Hallyu dramas therefore have been released and are popular through Chinese websites. "The Heirs" and "My Love from the Star" were mega-hits in China, and "Three Days," "Hotel King," and "Doctor Stranger" are

following.

The Bureau of National Press, Publication and Internet warned that illegal downloads of foreign drama content would be penalized. Officially, unapproved news and content are targeted, but this atmosphere would block Korean dramas to be distributed over the Chinese continent, according to professionals in broadcasting. 

Digital Content Cooperation

Korea, China to Corporate in Broadcasting Content



The lead actors from the Korean TV show "My Love from the Stars," which is very popular in China.

Korea is going to strengthen its partnership with China in broadcasting and digital content, in tandem with President Xi Jinping's visit to Korea.

Choi Mun-kee, minister of Science, ICT and Future Planning (MSIP), and Wang Taihua, director of the State Administration of Radio, Film, and Television (SARFT), signed an MOU between local broadcasting companies to co-produce content on July 3 as part of the Pengyou project, which is a joint project between Korea and China for content. A policy forum for the project was held on July 4, at the same event.

Both countries plan to expand trades in broadcasting and digital content and to closely cooperate. The two nations are going to move forward with a plan to let Korean and Chinese broadcasting companies work together in the production of content.

The SARFT is a government agency that manages and supervises radios, TVs, and the movie industry. Since the content industry is encouraged and promoted under the leadership of the agency, it is essential for Korean and Chinese governments to cooperate with each other so that locally-made content can be exported to the Chinese market.

Aside from broadcasting programs, cooperation in producing movies, computer graphics, 3D content, and animation, as well as personnel exchange and joint production and investment were included in this broadcasting and digital content cooperation.

Initiated in October of last year, the policy forum for Pengyou content between Korea and China is aimed at expanding content trades through the construction of business networks in both countries. 

Mobile Game Market

Mobile Game Industry Becoming Big Market with Big Players



Some promotional art from Ark Sphere, most known for its great big tracts of land to explore and engaging storyline.

Competition in the Korean mobile game industry is becoming fierce during the second half of this year.

Initially, small and medium-sized game developers dominated the Korean mobile game market due to relatively low entry barriers. It did not cost much or take long to develop a good game. As the market grows, however, the short life cycle, which has been considered as the greatest limit of mobile games, has been improved, and big game developers are entering the mobile game market accordingly. Furthermore, foreign game developers recently started joining the competition in the Korean mobile game industry, creating an environment of fierce competition for all players.

According to the industry on July 22, the current top sales games in Google Play are Taming the Monsters, Seven Knights, and Everybody's Marble by CJ E&M Netmarble; FIFA Online 3 and Legion of Heroes by Nexon; and Blade of 4:33 and Anipang 2 by SundayToz. Only last year, the mobile game market was led by small and medium-sized developers, but now big game developers who have primarily provided

online game services are easy to find.


Especially during the second half of this year, a lot of mid-core mobile games will be released by big game developers.

First of all, WeMade Entertainment released Dragon Hunter early this month. Dragon Hunter is a casual role playing game (RPG) in which users can form their own strong parties out of over 210 unique hunters and explore more than 170 varieties of maps, which is being spotlighted for the second half of this year. Ark Sphere, a mobile massively multiplayer online role playing game (MMORPG) outside of the Kakao game platform, attracts many eyes as well. Ark Sphere, launched through Camp Mobile's mobile game platform Band Game, has been constantly and increasingly popular since its release last March.

Nexon will also enter the mobile game market during the second half of this year. The company already announced that it will release 13 mobile games during the second half of this year at a press conference on July 8. The most promising game is Gwanggaeto, The Great Conqueror. It is a strategy

simulation game which provides real time player vs. player (PVP) action. It took one and a half years to develop this game.

Also, Netmarble launched Every Nice Shot, a mobile casual golf game, and Quizzle, a mobile puzzle game. Every Nice Shot enables users to hit a strong shot by the simple control of power and accuracy. Beginners can also enjoy the game, as kind explanations for putting are provided. Quizzle is a new type of puzzle game in which each stage is formed with a quiz and a puzzle combined together. Users can learn and obtain knowledge at the same time by solving more than 40,000 problems in various fields including history, science, sports, and entertainment.

Foreign mobile game developers are aggressively attacking the Korean market as well. Candy Crush Saga by King and Clash of Clans by Supercell ranked 12th and fifth in sales. King's other game Farm Hero Saga also recorded thirteenth place. An industry insider said, "As performances of foreign developers are outstanding, Korean game developers are getting nervous." 

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